ASSESSMENT OF FARMERS HOME ADMINISTRATION HOUSING PROGRAMS AND RURAL HOUSING BLOCK GRANT PROPOSAL

HEARING

BEFORE THE

SUBCOMMITTEE ON RURAL HOUSING AND DEVELOPMENT

OF THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

THE PROPOSED BUDGET OF THE FARMERS HOME ADMINISTRATION AND THE AVAILABILITY OF RURAL CREDIT

APRIL 13, 1982

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ASSESSMENT OF FARMERS HOME ADMINISTRATION HOUSING PROGRAMS AND RURAL HOUSING BLOCK GRANT PROPOSAL

TUESDAY, APRIL 13, 1982

U.S. SENATE,
SUBCOMMITTEE ON RURAL HOUSING AND DEVELOPMENT,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C.

The subcommittee met at 9:35 a.m., in room 5302, Dirksen Senate Office Building, Senator Harrison "Jack" Schmitt (chairman of the subcommittee) presiding.

Present: Senators Schmitt and Dixon.

OPENING STATEMENT OF SENATOR SCHMITT

Senator SCHMITT. The hearing will come to order.

I welcome all of you to this first Washington hearing of the Rural Housing and Development Subcommittee. This morning we will examine the role of the Federal Government in rural housing and discuss the future of the agency which traditionally has provided this service, namely, the Farmers Home Administration.

The field hearings held by this subcommittee in New Mexico provided an opportunity to examine many of the problems facing rural areas in a State that has had probably as many problems as any others. These hearings also allowed us to assess the conditions which exist in my own home State of New Mexico. Our experience was not reassuring. Despite high levels of Federal spending, despite the dedication of many individuals, many of the benefits have not gone to those who need the help the most.

The findings of our deliberations were supported by further staff research and it was concluded by subcommittee as well as the President's Commission on Housing that positive changes must be made to improve the delivery of services in housing in rural areas.

It should be our goal and responsibility to meet certain objectives. We must determine a means of doing the following:

First, providing safe and sanitary housing for the most needy of rural residents; second, insuring that an adequate means of home financing is available for rural residents; and third, bringing services closer to the people needing assistance so that their needs might be addressed directly and effectively.

The purpose of these hearings is to gain additional information and determine what constructive changes are necessary to facilitate assistance in these areas of great need. I have deep concern over the conditions which exist in rural America and feel that the

funds available under the current system will have a negligible effect in improving housing conditions for low-income persons.

In an attempt to provide a more effective system, I have developed a proposal which creates a rural housing block grant to administer all housing subsidy functions and which allows Farmers Home Administration to make and insure loans made at market rate. This legislation combines tried and true program designs and merits careful consideration by those who will be appearing before us today.

The New Federalism concept announced by the administration has encouraged us to take a sharp look at the capabilities which have been developed by State governments. The States are active, important players in rural economic and community development. This trend was specifically recognized last year by the Congress when it endorsed the involvement of States in HUD's community development small cities program. It is my opinion that given the opportunity, the flexibility, and the resources, States will address the housing needs of rural areas better than we can address them from Washington.

States have the capacity to develop programs that will meet the unique conditions of their population in a way that a Federal program cannot. The inherent success of the new small cities program lies in its adaptability. It allows areas with diverse needs to develop responsive programs to those needs. We have used the existing small cities block grant program as a model to develop a rural housing block grant which we believe will be a complementary program. Our block grant allows the State to examine its community and economic development needs and then allow the needs to structure a housing program.

We have restricted the program to insure that assistance will be used in rural programs to serve the most needy. Funds must be spent in areas outside of metropolitan statistical areas with a population of 10,000 or less, with emphasis on areas of less than 2,500 in population. The program will limit eligibility to families with an income below 50 percent of an area median income.

Although States are encouraged to rehabilitate existing units to the extent possible—and this is a major part of the block grant program—they may also engage in the following activities:

First, financing the construction and purchase of modest homes for low-income persons, including purchasing of existing homes and manufactured homes; second, provision of multifamily housing stock where there is a demonstrated need for low-income rental housing or farmworker housing; and third, provision of rental assistance for those low-income persons who are not otherwise served by an existing rental assistance program.

While we have shifted the subsidy function of Farmers Home Administration to the States, we want to insure that credit remains available in rural areas. The Farmers Home Administration would be authorized to extend credit for housing through direct loans and to insure loans by private lenders. The agency would serve the same population but would function purely as a credit agency and offer market rates loans.

This proposal addresses the concern that many rural areas are beyond the reach of private lending institutions and maintains a

steady source of credit to rural areas. It also addresses the concern voiced by many Farmers Home officials that their activities related to farming are being seriously diluted by the existing housing programs.

By insuring loans made by private lenders, we will encourage more private lending and continue to provide a source of credit for higher risk loans. The portion of the Farmers Home Administration budget which finances the subsidy functions of the agency would be transferred to the proposed rural housing block grant program. However, Farmers Home Administration would continue to make and insure market rate loans for the purchase, construction, repair and rehabilitation of both single and multifamily housing.

One of the most important conclusions that I think comes from the New Mexico hearings is, as I've indicated before, the inability of the existing program to serve those people that are most in need of some improvement in their current housing conditions. There has been a tendency in New Mexico, and I suspect elsewhere, to serve the highest income levels of those who qualify rather than moving down into the most needy and serving them to the extent that significant improvement in their existing housing can be made even though they may not be able to afford a new even low-cost housing unit.

I hope that this new block grant program can begin to address that as well as other kinds of problems.

We are fortunate this morning to have the Administrator of the current Farmers Home Administration program. Mr. Shuman is joined by representatives of State housing agencies who will lend their perspectives to the issues which confront rural housing in this Nation. We are indebted to those witnesses for their help and advice which will help us discover realistic, practical solutions to some very difficult problems.

Mr. Charles Shuman, Administrator of the Farmers Home Administration is our first witness. His description of the administration's proposals will serve as important benchmarks in our discussions today.

Mr. Shuman, would you proceed with your statement or a summary thereof, and then we will have some questions for you. You might also want to introduce your colleagues.

STATEMENT OF CHARLES W. SHUMAN, ADMINISTRATOR, FARMERS HOME ADMINISTRATION, ACCOMPANIED BY NEAL SOX JOHNSON, ACTING DEPUTY ADMINISTRATOR, PROGRAM OPERATIONS; L. D. ELWELL, ASSISTANT ADMINISTRATOR, HOUSING; JAMES C. ANDERSON, ACTING DIRECTOR, BUDGET DIVISION; AND MICHAEL E. BRUNNER, ASSOCIATE ADMINISTRATOR

Mr. SHUMAN. Thank you very much, Senator. Mr. Chairman, I'd like to present at the table here with me my associates from the Farmers Home Administration. On the far left is Sox Johnson, Deputy Administrator for Program Operations. Sitting right next to me on my left is Mr. L. D. Elwell, who I'm sure is very familiar to many people on the committee. He's Assistant Administrator for our housing programs. On my far right is my Associate Adminis-

trator, Mr. Mike Brunner. Sitting on my immediate right is Mr. Jim Anderson, who is the Director of our Budget Division.

Mr. Chairman, before I begin my statement, I want to point out that Farmers Home Administration apologizes for the incorrect title that we put on our testimony as far as the title of the subcommittee is concerned, and we hope that we will not let those kind of typos get past us in the future. I'm sorry for that, sir.

[Complete statement follows:]

TESTIMONY OF CHARLES W. SHUMAN, ADMINISTRATOR, FARMERS HOME ADMINISTRATION, DEPARTMENT OF AGRICULTURE

Mr. Chairman, members of the Committee, I appreciate this opportunity to discuss the housing policies of the Farmers Home Administration.

The overriding policy continues to be providing decent housing for rural people who otherwise cannot afford it. The corollary policy is to carry out this responsibility within the guidelines of the President's economic recovery program.

We are directing our resources to those people who are most in need and who live in truly rural areas. In fiscal year 1981, approximately 31 percent of our rural housing loans were made to house people whose income was below 50 percent of the median income. Census data indicates that the majority of substandard housing is in the more remote rural areas and in towns of 2,500 or less.

Secretary Block and HUD Secretary Pierce have formally agreed that there is serious lack of mortgage credit in communities with populations of between 10,000 and 20,000 populations. As a result, FmHA housing assistance will continue to be available in those designated communities if they are rural in nature and outside of a Standard Metropolitan Statistical Area (SMSA).

As you know, Mr. Chairman, Congress directed Farmers Home to eliminate the one national income eligibility standard and develop varying eligibility criteria tied more closely to local economic conditions. Last December, we issued regulations which established separate eligibility standards for single-family housing loans based on the median income of more than 500 areas. Eligibility for moderate-income borrowers ranged from an income ceiling of $17,000 to not more than $23,000. Low-income ceilings generally ranged from $11,500 to $18,000.

In the March 11 Federal Register, we proposed some refinements to the earlier regulations. Basically, the revised regulations will reduce the maximum income limit for moderate-income borrowers to between $15,600 and $23,000, depending on the economic region. Low-income ceilings will not change. The proposed regulations will also require an annual, instead of biennial, review of interest credit agreements with home loan borrowers. This latter change will help us assure that this assistance continues to reach those who need it most.

This same goal—serving those who need it most—is the underlying purpose of our decision to direct rental assistance funds to existing rural rental projects. A survey in March 1981, showed that many existing projects needed to increase the number of units available for rental assistance. We believe it is in the best interest of our borrowers, tenants and taxpayers to give priority to using rental assistance in our present projects and to expand our services to new units as additional resources allow.

The single-family housing program has not moved as well as we would like during the first half of this fiscal year due to a number of extenuating circumstances. As you know, we operated under a continuing resolution until January 1982. Many home loan applicants have had difficulty showing repayment ability due partially to high interest rates and general economic conditions. In addition, many county supervisors, especially in areas hit by natural disasters, have had to give priority to those farm borrowers who are experiencing serious economic problems. We assure you that we will do everything we can to use all available resources this year.

Although the vast majority of housing borrowers are making payments on schedule, the delinquency rate is still too high. We have just about 1 million (997,133) single-family housing loans outstanding as of January 1, 1982. Of those, nearly 300 thousand (281,104) or about 30 percent are delinquent. The delinquency figure includes an estimated 50,000 borrowers with whom we have been able to work out a new payment schedule but who are technically counted as delinquent.

There are about 30,000 (29,217) multi-family rural rental housing loans outstanding, including farm labor housing. Of these, 657 or just under three percent are delinquent.

We are making an effort to reduce our delinquency rates. By that we mean we are doing what we can, through servicing, to assist borrowers to become current on loan payments. This effort has been misinterpreted by some to mean that we are "cutting off" our borrowers rather than working with them to make their payments.

On November 25, 1981, we issued detailed procedures to our county staffs for supervision and servicing of single-family housing borrowers. They were instructed to monitor delinquent and problem accounts on a daily basis and provide individual credit counseling in an effort to assist borrowers.

Some of the servicing alternatives we are using are:

Determining if the borrower is eligible for interest credit assistance. If so, a reduced interest payment can be granted for up to two years. The subsidy granted on those loans approved after October 1, 1979, is subject to recapture.

Determining if the borrower is willing and can afford to make partial payments in addition to the regular payment.

Granting a moratorium on loan payments when the borrower is delinquent due to unemployment, illness or other circumstances beyond his control.

Of course, strict collection policies are followed for any borrowers who have sufficient income but fail to make payments. But under normal circumstances, rural housing loans are liquidated only after every other servicing approach has been tried and failed. Even then, foreclosure is recommended only after all reasonable attempts have been made to liquidate the loan through sale, transfer or voluntary conveyance.

In conclusion, Mr. Chairman, we believe that we have adequate funding, staffing and the necessary expertise to carry out our housing mandate with the President's economic recovery program.

I'll be pleased to answer any questions you or members of the committee may have.

Senator SCHMITT. Thank you, sir. You have stated that credit is not available in rural areas. I suspect that the problem is not one of availability but affordability in many cases. Nobody can afford a mortgage at today's interest rates, much less the poor in rural America. I have a feeling that as Farmers Home is a lender of first resort in some cases and not the lender of last resort as mandated in the original legislation. Just what is your credit elsewhere test currently?

CREDIT ELSEWHERE TEST

Mr. SHUMAN. Our credit elsewhere test in our housing program requires that the county supervisors have some understanding and knowledge of the ability of other suppliers of credit to make loans in that area, what their terms and conditions are. If this information that the county supervisor has would indicate to him that a Farmers Home Administration applicant could meet that test for credit, could meet that requirement of the other lender, then the applicant would be requested to seek that credit.

In addition, after we have once made a loan and have that borrower on our books, if his situation improves or if credit conditions in the community change so that this borrower could meet the requirements of that other lender, then we ask our borrower to refinance his loan.

Senator SCHMITT. Well, of course, there would be no 2-percent loans available from a private lending institution.

Mr. SHUMAN. Well, when you say a 2-percent loan, I think what you're referring to is the fact that we can utilize interest credit—what we call an interest credit program, to reduce the effective interest rate of a borrower down to as low as 1 percent in many instances.

Our basic interest rate, however, is 13.25 percent. The income level that we are required to stay under does in fact mean that most of our borrowers are not able initially to meet the requirement of that other savings and loan and other more conventional suppliers of credit that are utilized in those areas.

GUARANTEED LOAN PROGRAMS

Senator SCHMITT. The hearings we had in New Mexico showed some disagreement between the private sector and the Farmers Home Administration on this question. One problem was that in the loan programs there was no secondary market for Farmers Home Administration loans because they're only guaranteed up to 90 percent as I recall. Am I correct in that?

Mr. SHUMAN. Most of our loans, Mr. Chairman, in the housing program are not guaranteed loans.

Senator SCHMITT. Well, there is a program where you could guarantee them, but there's no demand for those because there's no secondary market. Is that true?

Mr. SHUMAN. Certainly that is the case. We do have a guaranteed loan program that has not been as well accepted by conventional lenders as I would hope to see it accepted.

Senator SCHMITT. Why would you even expect it to be accepted if the secondary market won't buy the mortgages?

Mr. SHUMAN. We need to find out what changes we should implement——

Senator SCHMITT. I can tell you what they told us. I can tell you exactly what GNMA and others said. And that is, they need to be 100 percent guaranteed.

Mr. SHUMAN. They need to have 100 percent guaranteed—that obviously would make them more attractive, but we do know that in some other areas that you can move the guaranteed portion in the secondary market and the lender can retain the unguaranteed portion in his own portfolio, if we can structure your guarantee so that that's possible.

We need to look at that, Mr. Chairman, so that we can improve the acceptability of that guarantee by conventional lenders. There are some other reasons, too, I think that that guaranteed program hasn't been as fully accepted by conventional lenders as we would like to see it.

One of the reasons is that many rural banks would not be originating enough mortgages to be attractive in the secondary market and, in other words, put them together in big enough blocks. So we need to take a look at that and try to find ways to improve it. I'd like to see it improved and more fully utilized.

Senator SCHMITT. But there really haven't been any significant number of guaranteed loans.

Mr. SHUMAN. That's correct.

Senator SCHMITT. And the program has been in effect for how long, 10 years?

Mr. SHUMAN. I'd have to check and see. It started as far as housing is concerned in the fall of 1976.

Senator SCHMITT. Well, it's been around for a long time and nobody is picking it up of any significance, so I think we all have to

look at why, and if we expect there to be a guaranteed loan program and there's justification for it, then it ought to be structured so it can be used. Otherwise, we ought to get it off the book.

Mr. SHUMAN. As far as 1982 is concerned Mr. Chairman, we have no authorization, no dollars, for that program in the 1982 program. The instructions and the authorities are there, but no dollars.

Senator SCHMITT. Well, I think that was at the request of Farmers Home, but if it wasn't, there's no record of success in the program so it certainly was not going to have much support up here.

Mr. SHUMAN. That's true.

Senator SCHMITT. We have some research to show that out of the 3,092 counties in the United States there are 494 that have no savings and loan institution within them, and even in these primarily rural counties, there are 1,487 commercial banking outlets.

It seems private institutions cover the territory pretty well. Is there a Farmers Home Office in every rural county?

Mr. SHUMAN. No, not in every rural county, but we do have complete coverage. We have a county office that has responsibility for all of the rural areas of the United States. In other words, sometimes we have what we call a county office that may have multicounty jurisdiction, serving two, three, four or more counties.

Senator SCHMITT. If we went to a program that depended more on the management capabilities of financial institutions, we would have better coverage than we have today through Farmers Home, area coverage; is that correct?

Mr. SHUMAN. We would certainly have a lot more outlets for the loan mortgages, especially if we could tailor one that would be available to and utilized by the low- to moderate-income families.

One thing that the private sector, Senator, might have some trouble administering as far as our programs are concerned is the interest credit program and the ability to adequately supervise and service some of those provisions. I think that we can, though, find ways to have more cooperation and utilize the private sector more in the program.

Senator SCHMITT. Well, we've had private sector testimony, at least in New Mexico, that says that most institutions have no problem in servicing loans. Their problem is in making the loan. I don't know why Farmers Home would feel that they have any more problem than anybody else in servicing loans.

Mr. SHUMAN. When I say service, I'm talking about our specific interest credit agreement and some of the things that we have to do in that program that aren't a normal part of a loan making or loan servicing operation. I have no doubt that we could do a better job of cooperating with the private sector in delivering not only our housing programs but all of our programs.

Senator SCHMITT. My questions in part are colored by what I think is a bias within the Farmers Home Administration at the local level. The agents of the Farmers Home Administration are there primarily to serve farmers in their farming problems and the housing problems of rural residents clearly tend to take a back seat.

New Mexico in 2 years turned back over $9 million in Farmers Home Administration funds that weren't used to meet the needs of

the rural poor. It doesn't mean that the rural poor don't exist. It just means that they weren't serviced by that amount of money. I'm not saying this necessarily as criticism because I think the local agents do have the right priority. That's one reason why we're looking very seriously at a block grant proposal that enables FmHA to focus on what is their principal responsibility and depend on the private lending institutions and states to provide what is now being provided inadequately by the Farmers Home Administration.

Does the Administration's legislative package include changes which are consistent with the proposals made for the community-related farm programs in the Farmers Home Administration?

Mr. SHUMAN. I'm not sure I understand your question, Mr. Chairman. Do we have changes in our program that does what?

Senator SCHMITT. Does the legislative package that the Administration proposes include changes that are consistent with other Administration activities related to community development or the farm community particularly?

Mr. SHUMAN. The Farmers Home Administration's portion of the budget very clearly emphasizes the direction that the Farmers Home Administration thinks we should be going and that is, as you pointed out, paying very close attention to the needs of farm-type borrowers that we have on our rolls. Our request for our housing program is reduced. The request for our water and sewer type funding, our community facility type funding is reduced, as is a reduction in our business and industry loan requests. In fact, we have asked for no funding for that program.

The dollar amounts requested for salaries and expenses for 1983 are approximately the same as they were in 1982. As I said, the farm lending activities request for that level is approximately the same as between 1982 and 1983.

MARKET RATE LOAN PROGRAM

Senator SCHMITT. You're proposing market rate loan in the farm programs; right?

Mr. SHUMAN. Most of our loans in the agricultural sector are at market rates. Some have statutory provisions that keep them at a certain level. Where we can, where the Secretary has the discretion and where the Congress has acted, we have set market rates and have in fact requested in the farmer program limited resource area that those interest rates for a limited resource borrower be the same as for a regular borrower.

Senator SCHMITT. So the trend is to move all of the Farmers Home loan programs toward a market rate program?

Mr. SHUMAN. As much as we can toward a market rate or toward a cost of money to the Government. We've taken that direction and have asked Congress to go in that direction certainly.

Senator SCHMITT. You said a moment ago that you were restricting the use of funds for water and sewer improvements. Did I misunderstand you?

Mr. SHUMAN. Not restricting. What we have done is ask Congress in the 1983 budget to reduce somewhat the level of authority

for making those kind of loans in fiscal year 1983 over what that level was in 1982.

Senator SCHMITT. Isn't that inconsistent, with the kind of problems that face much of rural America? Not only are there housing problems but directly related to that there are water and sewer problems? We have even found in New Mexico that in some cases the housing programs can't be satisfied because the area or the unit does not meet certain water and sewage standards.

Mr. SHUMAN. We don't think it will, Mr. Chairman, for several reasons. No. 1, we will continue to direct our efforts in these programs toward the smaller, truly rural communities, toward those communities that cannot without our assistance get help from the private sector. No. 2, we are also going to continue to seek and encourage communities to utilize jointly with us funding from the private sector for these operations.

The third thing that we feel is probably the most important impact that the President's budget will have on the rural areas is the same one that will have an impact clear across the United States, and that is the reduction of the impact the Federal Government makes in the capital markets. I firmly believe that if the Federal Government can be less of a competitor for the funds available for financing not only these kinds of projects but all financial needs of the United States, and interest rates are going to go down, and we're going to have things in a lot better shape as far as our economy is concerned.

Senator SCHMITT. Yes, but that still serves the higher income level of the poor. There are going to be a significant number of people who cannot afford interest at any reasonable level even if it went down to the zero inflation rate and interest rates, by some miracle, reached the historical value of money, 3 or 4 percent. You're still going to have the low-income, no-income poor without access to capital. Isn't that correct?

Mr. SHUMAN. That's correct, Senator. I'm not sure that no income or very low income people could ever be adequately served by a loan program. We have a need to try to find a way to tailor a program that does serve low- to moderate-income families remembering that a loan program does by its very nature imply repayment and income must be there in that family operation to do that.

Senator SCHMITT. I may have missed it, but I don't recall you using the word rehabilitation yet. Do you consider that an essential part of the Farmers Home Administration program or do you consider building new housing units as the most important thing you can do?

Mr. SHUMAN. We have said to State directors, district directors, county supervisors where we have them in the audience that Farmers Home Administration's efforts as far as utilizing our 502 program should depend upon the type of housing, the quality of the housing stock in that particular county office area. In some parts of the United States that housing stock is very adequate and we can utilize effectively our 502 funds to upgrade, rehabilitate, and improve the existing housing stock. In other areas, even counties within States, that is not as practical because of the quality of housing stock.

We have encouraged the country supervisors, State directors and district directors to make sure that any home that a family builds or moves into as a result of a loan we make be brought up to standards that are acceptable in that area.

Senator SCHMITT. But you see, by saying that, you may actually prevent families from getting a factor or two or three or four or five increase in the quality of their housing. Even with that increase, you may not meet some arbitrary minimum standard out here, but the family could still be a lot better off than they are today.

Mr. SHUMAN. I feel very strongly that we should not put families into substandard housing, that there should be some type of standard that——

Senator SCHMITT. What if you can't afford to meet those standards? And by saying that you're going to apply those standards, it means that you serve only a small proportion of the needy population because of either the lack of availability of funds or credit.

Mr. SHUMAN. My mind during this conversation was only on the 502 program. We do have a 504 program which can be utilized by people to upgrade existing housing, make some temporary repairs, sometimes repairs that may not bring that dwelling up to 100 percent of any kind of minimum standard. That program is utilized more heavily in areas where the housing stock is of lower quality.

Senator SCHMITT. But the information we've received in New Mexico and elsewhere is that the 504 program is underutilized, that you don't use the funds that are available for it, and that there's not, at the local level, any emphasis on maximizing the number of people served and the emphasis tends to be—and with pressure I'm sure from developers and elsewhere—on creating new housing stock.

Mr. SHUMAN. The 504 program has not been as fully utilized as many people, both in my agency and I'm sure other places feel it should. As far as the 502 program is concerned, we must make sure there, according to statute, that those funds do go to put the family in adequate housing.

Senator SCHMITT. What is the administration's position now on this? Do you have one? Do you think we ought to serve large numbers of people or small numbers of people?

Mr. SHUMAN. As far as the 502 program——

Senator SCHMITT. Well, as a combination? We're looking at the total program. Where should the emphasis be? If we can serve three or four or five times more people by emphasizing the 504 program over 502, particularly at a time when interest rates prohibit a great deal of new construction, shouldn't we do that?

Mr. SHUMAN. Senator, I would disagree with you on directing more of our 502 funds over into rehabilitation programs and away from providing housing for families that meet some kind of a minimum standard. I firmly believe that an important part of developing rural areas is providing housing that is of good quality for those families to live in.

Senator SCHMITT. But by whose standards? There are homes that are in some cases a few hundred years old in New Mexico that with a little bit of rehabilitation, a few thousand dollars, can be perfectly adequate, perfectly acceptable to the people who live

there. These people want to live there, and FmHA doesn't need to build some $30,000 or $40,000 home for these people. They don't need it. They don't want it in many cases.

Mr. SHUMAN. The Secretary does have the discretion, and we are using the minimum property standards as far as the standards are concerned for our 502 program.

Senator SCHMITT. Would you tell us a little more about the 515 program?

RURAL RENTAL HOUSING PROGRAM

Mr. SHUMAN. The 515 program is a rural rental housing program. The program is utilized basically with two plans. One program is available for use of a rental assistance program that Farmers Home Administration has. The other plan is available only on interest credit. The 1983 budget does not anticipate at this time having any rental assistance for use in the 515 program for new construction. We do feel that we will continue to be able to use that program to a large degree in providing lower cost rental housing in rural areas for families and for senior citizens.

Senator SCHMITT. Do you expect the 515 program to serve low-income families or is the emphasis now going to be on existing projects?

Mr. SHUMAN. I think you may be speaking of our rental assistance program. The rental assistance program is a straight grant program on top of the 515 program and that rental assistance program goes to assist 515 loans to make the units there more available to lower income families.

In 1982 and in 1983, we think at this point all of our rental assistance program funds, all of those grants funds, will need to be utilized and are going to be utilized to fund expiring previously issued contracts for rental assistance and to what we call patch up—put those units of rental assistance into projects that may have been part rental assistance before and have three or four or five more units that have not been utilized.

The 515 regular loan funds for new construction will be utilized, practically 100 percent, for our 1-percent interest credit program so the effective interest rate will be reduced from 13.25 percent down to 1 percent. So the rental assistance program, those grant funds will be utilized on our existing projects. The 515 funds which are loan funds will be utilized for primarily new construction or for new projects. There will be some proposals presented to us that we will be funding for updating or remodeling or rehabilitating existing rental projects.

Senator SCHMITT. The incidence of substandard housing is almost five times greater for rural than for metropolitan areas if you measure it on the basis of availability of plumbing. Have any programs been geared to help upgrade the plumbing in rural areas? The 504 funds, for example?

Mr. SHUMAN. We can utilize both the 502 program where plumbing is the only thing that's needed to bring the house up to the minimum property standards. If it's impossible to bring the dwelling up to those standards, then the 504 program funds could be utilized.

Senator SCHMITT. What portion of the 504 funds do you think are utilized for this?

Mr. SHUMAN. For strictly plumbing purposes? I'm not sure. Let me check with Mr. Elwell.

Senator SCHMITT. You can supply that for the record.

Mr. SHUMAN. If we do have those numbers available, we'll supply it for the record. I'm not sure that we are able to supply that, Senator, but we'll certainly try.

[The following information was received for the record:]

We do not have statistics relative to the total portion of Section 504 rural housing loans used for plumbing only. However, the statistics gathered for fiscal year 1981 show that 4.1 percent of the funds was used for water systems and the remainder was used for other repairs such as sewer systems, roof repairs, insulation and other repairs necessary to make the dwelling safe and sanitary and remove hazards to the health of the occupants, the family and the community.

Senator SCHMITT. Isn't this a good example of how emphasis on a type of rehabilitation provides significantly improved living conditions over and above what you might do with the 502 program?

Mr. SHUMAN. The 502 program can be used for that. Another similar area is in the use of insulation, of reducing the energy costs to the family, and that again can be utilized in both the 504 and 502 program, depending upon the borrower's ability, the contractor's ability to bring that house up to the standard and, of course, the specific situation of the family that is applying, whether or not they're eligible for the 504 or 502 program.

Senator SCHMITT. What do you think the level of activity would be if the Farmers Home Administration were to offer not totally unsubsidized loans?

Mr. SHUMAN. If our interest credit program was taken away completely so that there was no other substitute for that program and we were limited to our income levels as we now have them published, we would have a significant reduction on our loanmaking activities. If there was another grant program or another subsidy program that came in from another source to replace those interest credit funds, then it would depend upon the level of activity of that other source.

Senator SCHMITT. What if there were no income criteria?

Mr. SHUMAN. If Farmers Home Administration had no income criteria?

Senator SCHMITT. No. If there were no income criteria, if you were supplying an opportunity for unsubsidized rural credit?

Mr. SHUMAN. Then, Mr. Chairman, I would have some problems with whether or not Farmers Home Administration should be involved in competing with the private sector as far as delivering that assistance or making those loans.

Senator SCHMITT. Is the implication of that that there is rural credit available then?

Mr. SHUMAN. In some areas of the United States there is credit available for housing purposes for higher income individuals.

Senator SCHMITT. In all rural areas?

Mr. SHUMAN. No. I'm sure that there are many areas in the United States where that credit is not available, but we would need to be careful, I think, as we went into that area to assure that we

have not put ourselves in a position to be in competition with the private sector.

Senator SCHMITT. But our information is that there are only 13 counties in the total United States where there is no private lending institution. One of them is Upper Yukon County, Alaska.

Mr. SHUMAN. I'm sure that's the case but, again, we don't want to put ourselves in a position where we would be in competition with those 14,000 institutions.

Senator SCHMITT. Well, there's some suggestion that you already are and that's why I'm asking these questions. If there are only 13 counties out of 3,092 counties where there is no private lending institution, then it would seem that——

Mr. SHUMAN. Mr. Chairman, I don't think we are now in competition with the private sector because of our income restrictions plus the fact that a county supervisor, if he feels despite what those income restrictions are, that his applicant could get that loan from a savings and loan, then he would have to go to that location.

Senator SCHMITT. That's the point that I'm trying to get you to help me make, that if there were no subsidized loans, then the private sector would provide whatever rural credit was available, given other national economic conditions?

Mr. SHUMAN. True.

Senator SCHMITT. So your housing programs are really a social program to try to reach out and serve those who cannot be served under the existing economic conditions. If they could afford the credit, there would be credit available. But since they cannot afford it, the Farmers Home Administration exists to serve that social need. It doesn't serve any economic need. It serves a social need. Would you agree with that?

Mr. SHUMAN. I would agree that we are limited to only serving low- to moderate-income people under that income level.

Senator SCHMITT. So the discussion of credit available elsewhere really is academic, is it not?

Mr. SHUMAN. There are a few areas where there's very low cost available—some individuals may have the ability to attract a loan or apply for a loan or receive a loan from another institution. There could be some of those families with those kind of incomes that might be able to get a loan from another institution primarily though, probably 99.5 percent of the cases, the income criteria that we have in place right now makes it very improbable that a savings and loan would be able to—or another commercial institution would make a loan.

Senator SCHMITT. I understand that. But I just want to be sure because we are going to hear and have heard a lot about Farmers Home Administration serving areas because and solely because there is not credit available. There is not credit available if you apply the income standards, but there is credit available theoretically in all but 13 counties of the United States, provided the income criteria can be met.

Mr. SHUMAN. We can only work, Mr. Chairman, where there's no credit available for low- to moderate-income families and that's described for us specifically in the law and I think that we're in agreement on that.

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LOW-INCOME ELIGIBILITY

Senator SCHMITT. Could you provide for our record, if you don't know it now, what percentage of the people who meet the low-income standard will be served by Farmers Home in the fiscal year 1982 period as well as in your proposed fiscal 1983 budget?

Mr. SHUMAN. When you say low income——

Senator SCHMITT. To meet your low-income eligibility, what proportion of that would be served?

Mr. SHUMAN. I think that number in 1981 was 31 percent, but I'd have to see where we're at as far as——

Senator SCHMITT. Thirty-one percent will be served?

Mr. SHUMAN. I think that was the number. That was fiscal 1981.

Senator SCHMITT. Well, according to the estimates your people have given us, only 0.2 percent of the very low income rural households living in inadequate housing expected to be assisted by Farmers Home housing programs in fiscal 1982. That's compared to 16 percent of low income and 7 percent of moderate-income households.

Mr. SHUMAN. Well, we'll provide that information to the best of our ability for the record, Mr. Chairman. The 31-percent number that I was referring to demonstrates the fact there is the percentage of those rural housing loans made to people whose income was below 50 percent of the median income.

[The following information was received for the record:]

LOAN OBLIGATIONS BY INCOME LEVEL FOR SECTIONS 502 AND 504 RURAL HOUSING PROGRAMS AS OF MARCH 31, 1982

[By Percent]

	Very-low income (50 percent of median or below)	Low income	Moderate income
Section 502	15	76	8
Section 504	81	18	1

Data is not yet available for rental units resulting from loan activity in fiscal year 1982. Very few units being constructed with 1982 funds are completed and occupied at this time. Based on current performance, a slight increase in use of funds to serve very low-income households is expected for 1982 over 1981. We estimate that use of fiscal year 1983 funds for service of very low income households will also be slightly higher than in fiscal year 1981.

Senator SCHMITT. I'm going to have to move on to other witnesses and let Senator Dixon ask what questions he may have—but the evidence we have is that the very low income are just not being served by Farmers Home in spite of the fact we agreed a few moments ago that you're principally a social agency in this area to serve the low-income rural communities. I think there are some inconsistencies in what I think we all agree you're supposed to be doing and what actually happens. And this came out in the New Mexico hearing as well, is that the principal people being served are the higher income of the poor. I'm not saying that they shouldn't be served, but I'm saying those who are most in need are not being served. That's our problem.

Mr. SHUMAN. One must always remember Mr. Chairman, that we're primarily making loans; so obviously, if there is no income or the income gets so low that even a noninterest loan could not be repaid, then obviously we would not be able to come into that kind of a situation. So that would restrict how low we could go.

Senator SCHMITT. The problem is you're trying to make loans for $45,000 houses and that's why I keep going back to what can you do at low cost or through your subsidy program with the same amount of money to serve a larger number of more needy people?

Mr. SHUMAN. The 504 program would get into that area.

Senator SCHMITT. But it ain't happening. That's the problem. The statistics we have and the information we have is that it's just not happening. The very poor are not being served by any program, much less by what we have in place now.

Senator Dixon.

Senator DIXON. Thank you, Mr. Chairman. First, may I welcome my good friend, Charles Shuman, to this hearing. He's a distinguished Illinoisan.

Senator SCHMITT. If I had known that, I would never have turned over the podium. [Laughter.]

Senator DIXON. I want to apologize to you, Charlie, for not being here for the full context of your remarks.

DRASTIC BUDGET CUTS

I'd like to ask you this question. For fiscal year 1983, the administration has proposed cutting Farmers Home Administration's budget by two-thirds of the fiscal year 1982 budget. Such drastic cuts should be justified on some programmatic basis. I'll ask you, would you please explain why the administration has proposed cutting the section 502 single-family subsidized program by 61 percent, eliminating completely the unsubsidized 502 program, and reducing the section 515 multifamily rental program by almost 80 percent?

Mr. SHUMAN. Senator, the Farmers Home Administration feels that the level we've requested in the budget will enable us to adequately serve those truly rural families living in truly rural communities, provide the kind of housing for those families that the law and the Congress and this Administration thinks is appropriate. We also feel, Senator, that the change and the reduction in the 515 program, the drop in that level, indicates again the direction we're talking as far as zeroing in on the smaller, more truly rural communities.

The agency's overall 1983 budget request for all our program activities reduces not only our housing program but also reduces the level of authority requested for our community facilities program and again asking the Congress not to fund the business and industry guaranteed loan program.

We are asking that our farm-type loans be made approximately the same and that the dollars for salaries and expenses be kept at approximately the same level. The overall direction of the agency, as you can see, is to continue the emphasis that we've started now, on paying attention to the needs of our farm-type borrowers that we have on our books and making sure they can be successful farmers and farm operators, to direct our attention in our housing

and our community facility areas to those smaller, truly rural communities and to utilize our people, our personnel, at the same level we have right now to provide the supervisory and servicing activities needed to make those farmers and ranchers successful.

Also, we feel that it is very important for the Federal Government not to be as big a competitor in the capital markets as we have been in the past so that interest rates will come down to make it more feasible for people to borrow money to build houses, for farmers to borrow money to put in their crops and take care of those operations and for communities to install those vital facilities that are necessary for them to operate.

Senator DIXON. Have you or other members of the administration been consulted on the proposal to block grant low income housing assistance through the Farmers Home Administration? If so, does the Administration have a position on this proposal?

Mr. SHUMAN. We have been consulted. We have been asked to comment. We have not yet taken a position on it, Senator.

Senator DIXON. Senator, I thank you very much for giving me an opportunity to ask some questions of an old friend. I'm going to ask leave that at a suitable opportunity in the near future to forward some written questions to Mr. Shuman for his response.

[Response to written questions subsequently received for the record follows:]

United States Department of Agriculture | Farmers Home Administration | Washington D.C. 20250

MAY 3 1982

Honorable Alan J. Dixon
United States Senate
Washington, DC

Dear Senator Dixon:

This is in reply to your letter dated April 19, 1982, regarding the Rural Housing Hearing held by the Subcommittee on Rural Housing and Development April 13, 1982.

As you requested, I am providing the answers to the questions you submitted. I will also insert these answers in the official transcript for the record.

We share your concern about the need of the rural housing program and assure you that we will do everything possible in the Farmers Home Administration to see that low-income families all across the country receive assistance in obtaining decent, safe and sanitary housing.

Sincerely,

Charles W. Shuman

CHARLES W. SHUMAN
Administrator

Enclosure

QUESTION 1:

Do you believe that the Farmers' Home Administration or the Department of Agriculture could effectively administer both a housing block grant and unsubsidized housing program? Please explain.

ANSWER:

Farmers Home Administration has experience in administering grant and loan programs to serve the same borrower. This method of financing sewer and water projects has been standard procedure since 1965. We believe there is great similarity between that program and the proposed housing block grant program and an unsubsidized loan program.

Questions still remain unanswered on how the block grant could be matched with the loan recipient when the funds are controlled by different entities. This question and others need further study and until the study is completed, we are not able to know the full impact of administering both programs.

QUESTION 2:

Between 1979 and 1981 FmHA administered a loan guarantee program for housing. Please state the experience of FmHA with this program.

ANSWER:

The Farmers Home Administration, through its single family housing loan program, guaranteed loans made by lenders to above moderate income applicants to finance adequate but modest homes of their own in rural areas during the 1979, 1980 and 1981 fiscal years. The program was administered under Title V of the Housing Act of 1949, as amended.

The basic objective of the program was to assist applicants in obtaining adequate but modest, decent, safe and sanitary dwellings and related facilities for their own use in rural areas by guaranteeing sound rural housing loans when loans would not have been made without a guarantee. Private lenders making the rural housing loans were guaranteed repayment of up to 90 percent of any loss of principal and interest.

The following table shows the number of loans guaranteed and the amount for each fiscal year:

Year	Number of Loans	Amount
1979	377	$11.9 million
1980	597	18.9 million
1981	174	5.7 million

FmHA required that local lenders make the housing loans it guarantees. A local lender was one located in, or having a representative in, and serving the area where the property was located.

Most lenders were eligible, including national and state banks, federal land banks, and savings and loan associations. Any other lenders, such as insurance companies, credit unions and mortgage companies, could be eligible if approved by FmHA.

Guaranteed rural housing loans were made by lenders to applicants with above moderate incomes who did not own decent, safe, and sanitary housing; were unable to obtain a loan from private lenders on terms and conditions they could reasonably be expected to meet without a guarantee; ahd sufficient income to pay house payments, insurance premiums, taxes and maintenance, other debts, and necessary living obligations; and possessed the ability and experience to meet loan obligations.

Each person who applied received equal consideration without regard to race, color, creed, sex, marital status, or national origin.

If an applicant could obtain a loan without a guarantee, the applicant was not eligible for a guaranteed loan.

Lenders had three options for marketing the guranteed portion of a rural housing loan. FmHA could provide a loan note guarantee for each note representing the guaranteed and nonguaranteed parts of the loan. The guaranteed notes were 100 percent guaranteed by FmHA and could be sold in the secondary market to investors. The lender could assign, using the FmHA assignment agreement, all or part of the guaranteed portion of the loan to one or more holders. If assigned in this manner, the assignment carried a 100 percent guarantee. The lender could also sell participations in the guaranteed portion of the loan in accordance with its regular procedures.

The lender serviced the loans guaranteed including loan collections and accounting, borrower counseling, and repossession and resale of security property if it became necessary.

Soon after the guaranteed program was implemented, interest rates increased to record levels and the housing industry entered a slump from which it has not yet recovered. Restrictive income limits, lenders' reluctance to make long-term real estate loans in a period of rising long-term capital costs and other factors resulted in only limited use of this guaranteed rural housing program.

We feel the guaranteed rural housing loan program may still be a viable alternative for meeting the housing needs in rural America.

QUESTION 3

FmHA finances most of its housing activity through the Rural Housing Insurance Fund (RHIF). A controversy has developed concerning how RHIF accounts for its activity in federal budgets. Since RHIF is a revolving fund, only net spending activity shows in the budget. As late as March 15, 1982, the USDA has recommended that there be "no change in the current practice of accounting for RHIF on a net basis" unless the Administration and the Congress decide to account for all federal credit activities on a gross basis.

What are the reasons that FmHA accounting has not been simplified and its programs made more akin to those of the Department of Housing and Urban Development in terms of budget treatment?

ANSWER:

The Department has recently completed a comprehensive analysis of the budget treatment of the rural housing programs as requested by Section 513 of P.L. 96-399, the Housing Act Amendments of 1980. The report was submitted to the Committee on March 24, 1982. The report set forth the complexity of changing the budget treatment and the problems associated with such changes.

The accounting system and budget treatment for FmHA's housing programs were developed in a manner that was consistent with the authorizing and appropriations legislation passed by Congress, and generally accepted budget and accounting practices. Although we are constantly engaged in improving the system, to make it operate more efficiently and provide additional information, we cannot unilaterally change the basic format of the system unless the basic enabling legislation is changed. Even in that case, it would require substantial lead-time and commitment of resources to make such a conversion.

FmHA programs are not authorized or appropriated in the same way as those of the Department of Housing and Urban Development. In any case, we would not recommend that the FmHA loan accounting system undergo major changes at this time.

QUESTION 4:

What is the rationale for eliminating the Self Help Housing program and reducing by over fifty percent the Rental Assistance program, these being two main program efforts aimed at low-income persons?

ANSWER:

FmHA should not be considered as the major housing lender in rural areas and this role can be adequately filled by the private banking industry.

A small specialized housing program like self help housing/technical assistance provides technical assistance to families that obtain Section 502 home mortgages to build their own homes. Budget reductions in the Section 502 home program, therefore, has a corresponding effect on these support programs.

In addition, our top priority in FY 83 will continue to be improving the quality of our loan portfolio and to reduce the level of loan delinquency. Staff resources needed to successfully administer self help houisng/technical assistance programs are substantial and compete directly with staff resources needed to meet our servicing priorities. For these reasons we eliminated the self help program.

Our decision to reduce the Agency's commitment toward the rental assistance program is consistent with President Reagan's effort to reduce overall Federal Government spending. Our objective is to reduce the funding for the program while maintaining a commitment to the low-income tenant households who are currently benefiting from rental assistance.

During Fiscal Year 1983, by not directing resources to costly long-term rental assistance contracts for new construction, the Agency will be able to assist 17,560 tenant households by renewing 5-year contracts that we estimate will expire at either the end of their 5-year term or from the exhaustion of contract funds.

We hope to further reduce the level of federal resources used to subsidized occupancy in multiple family rental housing by increasing the amount of the tenant household contribution from 25 percent to 30 percent of adjusted monthly income.

Senator SCHMITT. Senator, the subcommittee will be forwarding a number of questions to Mr. Shuman and others for the record. We'll be happy to include yours and staff will follow up with that.

In response to your question about the block grants, it would seem from the testimony this morning and other information that the subcommittee has gathered, that if the administration is moving toward having Farmers Home Administration deal principally with farm activities, then it would make sense to have States deal with the local housing. That's the basic principle behind the block grant proposal and since the statistics that we have available to us right now indicates that the very poor are not being served by Farmers Home Administration, we'd better find another system that would serve the rural poor.

Thank you, sir, and your colleagues for your attention and the answers to the questions.

We'll move now to Mr. Larry Edwards, Associate Deputy Governor for Supervision, Farm Credit Administration. You've provided us with your testimony. If you think it appropriate to summarize your written statement, the entire statement will be included in the record. I must say that until I got involved with this subcommittee the Farm Credit Administration was one of the best kept secrets that I had ever run across. Hopefully it will no longer be so.

STATEMENT OF LARRY EDWARDS, ASSOCIATE DEPUTY GOVERNOR FOR SUPERVISION, FARM CREDIT ADMINISTRATION

Mr. EDWARDS. Thank you, Mr. Chairman. I will summarize my statement and submit it for the record.

[Complete statement follows:]

Statement of Larry Edwards

Associate Deputy Governor for Supervision

Farm Credit Administration

Mr. Chairman, my name is Larry Edwards. I am Associate Deputy Governor for Supervision in the Farm Credit Administration, the independent Federal agency that regulates and supervises the cooperatively owned Farm Credit System. Before discussing the role of the Farm Credit System with respect to rural housing, I would first like to provide some background information on the System and the Farm Credit Administration.

Farm Credit System

The cooperative Farm Credit System consists of federally chartered instrumentalities that operate under authorities contained in the Farm Credit Act of 1971 (P.L. 92-181) and other statutes, most notably the Farm Credit Act Amendments of 1980 (P.L. 96-592). The Farm Credit System provides credit and closely related services to farmers, ranchers, producers and harvesters of aquatic products, agricultural and aquatic cooperatives, rural homeowners, and certain businesses that provide farmers and ranchers with services essential to their on-farm operating needs.

While the U.S. Government provided initial funding for the various institutions of the Farm Credit System, this "capital" has since been repaid. The Farm Credit System is now entirely borrower-owned and controlled. Even the cost of the Farm Credit Administration (FCA), the independent Federal agency that examines and supervises the System, is assessed upon the banks it supervises; therefore, it is the System's borrowers and not taxpayers who pay the expenses of the Farm Credit Administration.

The Farm Credit System obtains its loan funds primarily through the sale of securities in the national and international money markets. These securities are not guaranteed by the U.S. Government, they are sold through the System's Fiscal Agency in New York City.

The Farm Credit System is comprised of the Federal land banks, Federal intermediate credit banks, and the banks for cooperatives. I will briefly describe each of these three sets of agricultural lending institutions.

The 12 Federal land banks (FLBs) make loans ranging from 5 to 40 years through local Federal land bank associations (FLBAs). These loans must be secured by first liens on farm and rural real estate or their equivalency. Loans may be made for a variety of purposes, including the purchase of farms, farmland, and farm improvements; rural homes and real estate needed for related businesses; the purchase of equipment, machinery, and livestock; refinancing existing mortgages and paying other debts; and financing other needs of the borrower.

The Federal intermediate credit banks (FICBs) provide loan funds to local production credit associations (PCAs) and discount the notes of eligible borrowers given to other financing institutions. The FICBs may also participate with production credit associations, commercial banks, and one another in making loans.

PCAs make loans with terms up to 10 years to farmers, ranchers, rural homeowners, and certain farm-related businesses. They also make loans with terms up to 15 years to producers and harvesters of aquatic products. Loans are made for a variety of purposes related to the production of agricultural products, the production and harvesting of aquatic products, purchase, repair, or maintenance of rural homes and other requirements of the borrower.

The banks for cooperatives (BCs) provide agricultural, aquatic, and rural utility cooperatives with a complete credit service designed to fulfill their specialized needs. The BCs make term loans for purposes such constructing, remodeling, expanding facilties, or purchasing land, buildings, or equipment. Seasonal loans are made to finance current or seasonal assets. The BCs do not make rural housing loans.

The Federal Farm Credit Board is the top policymaking group for the Farm Credit Administration and the cooperative Farm Credit System. Members of the Federal Board, as well those of all other boards in the System, serve on a part-time basis. Twelve members of the Board, one from each district, are appointed by the President of the United States, with the advice and consent of the U.S. Senate. They serve 6-year terms, and are not eligible for reappointment. The thirteenth member of the Board is appointed by and serves at the pleasure of the Secretary of Agriculture.

The Governor is the Farm Credit Administration's chief executive officer. He is appointed by and serves at the pleasure of the Federal Farm Credit

Board. He is ultimately responsible for carrying out the policies of the Board by ensuring that the Farm Credit Administration supervises, examines, and regulates the Farm Credit System in the public interest. At the same time, each institution of the System is a user-owned and controlled cooperative association. A great deal of responsibility for directing and managing Farm Credit institutions is vested in member-elected boards of directors and their selected management. FCA supervision is designed to oversee the activities of the district boards to ensure management of the banks and associations. Operating decisions are decentralized within the System to the user level, as long as System objectives are respected and sound business is conducted.

Now that I have given the subcommittee an overview of the Farm Credit System and the Farm Credit Administration, I would like to address the subject of this hearing -- the System's role in financing rural housing.

Authority for Farm Credit System Rural Housing Programs

Since their inception in 1916, the Federal land banks have made loans to farmers for residences. However, prior to 1971, neither the FLBs nor the PCAs made rural housing loans, i.e., loans to nonfarmers for rural residences. Until that time, the System operated as a source of credit to American agriculture, but not to rural America in the broad sense of the term. Then, in May 1969, the Federal Farm Credit Board named 27 farm leaders to a special commission on agricultural credit to study the

structure and the role of the Farm Credit System and to make recommendations on how the System might effectively be restructured. In March 1970, the commission issued its report, which concluded, in part, that the Farm Credit System "should take a broader view of serving credit needs than in the past." The commission advised the Federal Farm Credit Board that the "System should be ever alert for ways in which it can contribute directly to the well-being of rural residents and rural communities." The financing of nonfarm, rural homes was cited as a specific example of the type of needed service the System could perform for America's rural community.

In 1971, Congress granted the Federal land banks and production credit associations the authority to make rural home loans to nonfarm residents of rural areas. However, Congress imposed limits on this lending authority. One important limitation was that land banks and production credit associations were authorized to finance only "single-family, moderate-priced dwellings and their appurtenances, not inconsistent with the general quality and standards of housing existing in, planned, or recommended for the rural area where located." In other words, the authority was designed to enable the FLBs and PCAs to meet the needs of middle-income rural residents. On one hand, Congress recognized that the Farmers Home Administration and other Government agencies had programs to provide financing for low-income rural residents and that it would be inappropriate for the System to engage in this type of financing. On the other hand, Congress recognized that there was no pressing need for the System to make credit available for rural residences priced in excess of the moderate range.

In determining the "moderately priced" level for rural residences, the Farm Credit Administration uses data on the value of home sales and income levels on a national basis. At present, the Agency's administrative guideline places an $80,000 ceiling on dwellings and lot. This ceiling was established in November 1979, and reevaluated several times since then. If a Farm Credit district wishes to set a higher ceiling, it must conduct a study, in accordance with FCA guidelines, to justify the higher level. Generally, "moderately priced" includes dwellings in the lower 75 percent of housing values in a defined area.

A second limit on System rural home lending centers on the definition of "rural." A "rural" area is defined by FCA regulations as "open country which may include rural subdivisions of any city or village of a population not exceeding 2,500 persons." The intent of this regulation is to prevent Federal land banks and PCAs from financing in "concentrated, high density residential areas or villages which are part of an urbanizing area, surrounded or immediately adjoining an urban area of a large population center."

A third limit imposed by Congress is that no land bank or PCA may have outstanding rural-residence loans in an amount exceeding 15 percent of the total outstanding. This 15-percent limit was established by Congress to ensure that System funds will be available for financing agriculture. In other words, while the needs of rural residents should not be ignored by the System, the first priority of the Farm Credit System is to meet the credit needs of America's agricultural producers.

System Rural Home Lending Experience

Farm Credit System loans outstanding for rural homes have grown from zero in 1973 to almost $3 billion at present. As the chart below indicates, the increase has been most pronounced in the land bank system.

FLB Rural Home Loans - As of Feb. 28

Year	Number of loans closed 12 mos. end. Feb. 28	Number of loans outstanding	Amount of loans outstanding	Percent Change year earlier	Percent of Total FLB outstanding
1978	5,753	29,843	683,438	12.6	3.0
1979	12,089	38,957	994,579	45.5	3.8
1980	20,451	56,495	1,656,316	66.5	5.1
1981	16,105	69,770	2,180,398	31.6	5.5
1982	19,025	86,289	2,844,236	30.4	6.0

PCA Rural Home Loans - As of Feb. 28

Year	Number of Loans made 12 mos. end. Feb. 28	Amount of loans outstanding ($000)	Percent Change year earlier	Amount of Percent of Total PCA outstandings
1978	10,170	16,033	29.0	0.1
1979	15,708	22,822	42.3	0.1
1980	19,246	28,871	26.5	0.2
1981	18,103	32,025	10.9	0.2
1982	17,500	35,510	10.9	0.2

As of February 28, 1982, the number of land bank rural housing loans stood at 86,289, an increase of 23.7 percent over the previous year. The land banks had a total of $2.8 billion in rural home loans outstanding, which represents an annual increase of 13.4 percent. Despite its generally fast rate of growth, land bank rural home lending represents only 6 percent of total FLB loan volume. While double the 1978 proportion, this percentage is still far below the statutory ceiling of

15 percent. The PCA rural housing loan total is considerably smaller and growing at a less rapid rate. As of February 28, 1982, PCA rural home loans constituted only 0.2 percent of the total amount outstanding.

Unfortunately, we do not have data on the typical rural home loan borrower in the 1981; however, the table below summarizes the characteristics of the average FLB rural home loan in the years 1976-1980.

Characteristics of the average FLB rural home loan

	1976[a]	1977[a]	1978[a]	1979[a]	1980[a]
Age	35	35	35	35	35
Assets	$68,539	$79,186	$90,181	$104,332	$128,689
Debts	$31,156	$35,567	$41,340	$47,091	$55,209
Net worth	$37,383	$43,619	$48,841	$57,241	$73,480
Debt/asset ratio	45%	45%	45%	45%	43%
Debt/net worth ratio	83%	82%	85%	82%	75%
Net nonfarm income	$18,423	$19,925	$22,615	$25,268	$28,538
Net farm income[b]	$3,056(10%)	$4,602(12%)	$3,978(10%)	$5,206(8%)	$5,044(8%)
Net farm income[c]	$306	$552	$397	$416	$404
Loan amount	$24,202	$27,881	$31,932	$36,483	$38,947
New money	$22,862	$26,066	$30,511	$35,371	$37,846
New money/loan amount	94.5%	93.5%	95.5%	97.0%	97.2%
Loan appraised value[d]	70%	70%	71%	71%	68%
Acres in security	4	4	4	4	7
Building value	$29,595	$32,688	$38,511	$44,180	$47,780
Appraised value[d]	$35,662	$39,655	$46,233	$52,913	$58,522
Appraised value/acre[d]	$8,032	$9,509	$11,755	$14,409	$7,926

The table above shows that the typical Federal land bank rural home borrower in 1980 was 35 years old, had a net worth of $73,480, and obtained a loan of $38,947, which constitutes 68 percent of the appraised value of his home. We expect that the FLB rural home borrower in 1981 will differ only marginally from his 1980 counterpart.

Conclusion

Since 1973, production credit associations, and more especially, Federal land banks have played an increasingly important role in the financing of single-family and moderately priced rural homes. If the population growth in the United States continues to be high in rural and small town communities in the 1980s, we can expect the System's role to continue to increase. However, rural housing will not become a dominant focus of the System's lending activity. Nor can the System be expected to finance the type of rural home borrower now served by the Farmers Home Administration. While there is much that System institutions can and will do to meet the needs of middle-income rural home borrowers, it cannot provide a solution to the entire rural housing problem.

Mr. EDWARDS. I'd like to very briefly describe for you the purpose and the structure of the farm credit system, its authorities particularly in the rural housing area, and the scope of the system's rural housing program.

The Farm Credit Administration is an independent agency in the Federal Government. We are charged with responsibility of regulating and supervising the institutions of the Farm Credit System. The System itself consits of three separate banking systems, federally chartered credit cooperatives. They are entirely owned by the borrowing members. There is no Government subsidy in the loan program, no Government funds involved in the operations of the System at all. In fact, the expenses of the Farm Credit Administration are assessed against the Farm Credit System.

The three banking systems are the banks for cooperatives which provide about 60 percent of the credit to farmer and fishermen cooperatives throughout the United States. They have no housing lending authority, so I'll move on and spend most of my time on the two branches of the System which do.

The Federal Intermediate Credit Bank and Production Credit System provide short- and intermediate-term credit primarily to farmers, ranchers, and fishermen. They make loans with maturities of up to 10 years. As self-sustaining institutions, the rates on PCA loans generally are equivalent to commercial rates.

Senator SCHMITT. That means that if you were making a loan at 10 years right now, Mr. Edwards, the rate on that loan would be what, about 17 percent or something like that?

Mr. EDWARDS. In most associations, probably about 15 percent. There are about 420 production credit associations and they're separate corporations so their rates will vary from place to place depending on the nature of their territory and the size of their loans and many factors.

Senator SCHMITT. OK.

Mr. EDWARDS. PCA involvement in rural housing lending is fairly insignificant because of the 10-year maturity limitation. The 10 year was recently increased from 7, so it's probable that PCA activity in the housing area will increase in the coming years. Predominantly, PCA is involved in loans to remodel houses rather than purchasing.

Senator SCHMITT. Isn't the average mortgage rate today 17 percent, the average new mortgage?

Mr. EDWARDS. Yes, sir.

Senator SCHMITT. Why is there a 2-percent differential?

Mr. EDWARDS. OK.

Senator SCHMITT. You're just better managers——

Mr. EDWARDS. That's part of it. The Farm Credit System as a cooperative charges interest rates on a blended basis. Hence bonds that the System may have issued 3 years ago, that are still outstanding at a substantially lower rate, would have the effect of reducing the total cost of bonds outstanding. This allows the System to charge interest at less than the current market rate when interest rates are rising.

Conversely, if interest rates come down fast, because of our blending rate, we will come down a little bit slower.

Senator SCHMITT. You would tend to lag. OK.

Mr. EDWARDS. The Federal land bank system is the portion of the Farm Credit System that is most actively involved in rural housing. The land banks make loans, first mortgage on real estate or the equivalent of first mortgage, for terms of 5 to 40 years. The land bank system in total has about 6 percent of its total loan volume or approximately $3 billion in housing loans outstanding.

RESTRICTIONS

Congress granted the system the authority to make housing loans in 1971. In 1972 regulations implementing this authority were put in place and the housing program started early in 1973. In preparing that legislation, Congress put three rather important restrictions on the system's housing activity. Those were put in to assure that the system maintains a rural identification and its identification as a predominantly agriculture lender.

Those restrictions are as follows: First, the system is restricted to single-family, moderate-priced dwellings, not inconsistent with the quality and standard of housing which exists or is planned for the community. We have defined moderate priced as dwellings not to exceed $80,000 in value. This is based on statistics gathered nationally on the sales prices of existing homes and the cost of new construction.

The second restriction is that the loans must be made in open country, or rural subdivisions, but not in cities and towns in excess of 2,500 population.

The final restriction is that no more than 15 percent of the total loans outstanding could be in housing loans.

As of September 28, 1982, the land banks had just over 86,000 rural home loans outstanding, an increase of almost 24 percent over a year ago, the dollar volume is $2.8 billion. That's an increase of about 30 percent over a year ago.

The average size of an FLB rural home loan outstanding is about $39,000.

With that, Mr. Chairman, I'd be glad to take whatever questions you may have.

Senator SCHMITT. What overlap do you perceive between your activities and those of the Farmers Home Administration?

Mr. EDWARDS. The programs are probably more complementary than overlapping. At the top end of FmHA income levels, I'm certain there would be loans which the Farm Credit System could make. FmHA income limitation is $18,000 maximum. This would mean a $36,000 to $40,000 house; the system would be making some of those loans.

Senator SCHMITT. You would be making some of those loans?

Mr. EDWARDS. Yes.

Senator SCHMITT. Do you have any idea what proportion of the 502 program activity of the Farmers Home Administration might qualify for loans under the Farm Credit Administration?

Mr. EDWARDS. No, sir; I don't. The cooperation between the Farm Credit System and the Farmers Home Administration is very good. We do work closely with them in their graduation programs, but I don't think they have or that we have any idea what the percentage would be.

Senator SCHMITT. At the unsubsidized level, the Farm Credit Administration would provide accessibility to credit throughout the United States, rural credit?

Mr. EDWARDS. Within the limits of the law, yes.

Senator SCHMITT. Yes; now the housing segment of the Farmers Home Administration is based on the premise that private lending institutions cannot and do not finance homes in rural areas. Arguments have been made on both sides of the issue. However, the evidence does not as yet appear conclusive. There are indications that Farmers Home may be stunting the growth of private lenders in rural areas. We discovered the following facts. The level of loan activity is higher for both commercial banks and savings and loans than it is for Farmers Home which offers below market rates. Our research shows that only 494 out of a total of over 3,000 counties have no savings and loans and in most of these counties there are other lending institutions. HUD reports that FHA financing is available in 80 percent of the communities which have a population between 10,000 and 20,000 and no county is more than 30 miles from an FHA lender. Many lenders in communities with less than 10,000 also have FHA authority.

The Federal land banks now make loans to rural homeowners in agricultural communities of 2,500 or less for modest single-family homes unsubsidized, correct?

Mr. EDWARDS. Yes, sir.

Senator SCHMITT. The interest rate varies, well, between 11.5 and 14 percent, but you're saying your new rate now is about 15 percent.

Mr. EDWARDS. For Production Credit Associations, the rate is about 15. For land bank loans, the rates would run from 11.5 to 13, with the predominant number in the 12 or 13 range. There would also be some loan closing fees associated with that, predominantly in the range of 4 to 5 percent of the loan amount.

Senator SCHMITT. The term of the loan is up to 40 years?

Mr. EDWARDS. Yes, sir.

Senator SCHMITT. The Federal land bank finances their activity valuing $80 billion a year through the sale of bonds on the money market; is that correct?

Mr. EDWARDS. That's correct.

Senator SCHMITT. You have no limitations other than good commonsense on how you work within the money market?

Mr. EDWARDS. There are debt-capital ratio limitations on the banks, but those are business constraints.

Senator SCHMITT. Congress has mandated that no more than 15 percent of the loans should be made in housing. Is that a constraint of any significance to you?

Mr. EDWARDS. It hasn't constrained any of our banks at this point. On a systemwide basis, we've got about 6 percent of the land bank portfolio in agriculture loans. There are some districts with a higher percentage and some with a lower percentage.

Senator SCHMITT. So you have to meet that criteria of 15 percent or less by district rather than systemwide?

Mr. EDWARDS. Yes; there are 12 farm credit districts and I believe 2, perhaps 3, of those would be above 10 percent.

Senator SCHMITT. There's a portfolio of over 86,000 home loans which represents 10 to 11 percent of the total program activity. You just said 6 percent. Do I have those mixed up?

Mr. EDWARDS. The restriction is on the volume, not the number. The 86,000 number of loans is 6 percent of the volume.

EXPANSION AND REHAB LOANS

Senator SCHMITT. The Federal land bank network of 488 associations in 1,500 branches reaches all rural areas with a population of 2,500. The Production Credit Association makes short- and intermediate-term housing loans for expansion and rehabilitation. Currently, there are 4,000 loans for $35 million outstanding in the Production Credit Association. Does that sound about right?

Mr. EDWARDS. That's correct.

Senator SCHMITT. Although there are many indicators that point toward an adequate supply of credit, many would argue that Farmers Home Administration activity is still necessary, particularly subsidized activity. The presence of the Farmers Home Administration as it exists now does not promote growth of private lenders or the transfer of funds from urban cash surplus areas to rural cash deficient areas.

Now what has been your interest rate to the borrower in the last several years in comparison to the market rate? I think we established that in the high inflation——

Mr. EDWARDS. Generally lower than savings and loan rates or commercial bank rates.

Senator SCHMITT. By a couple percent.

Mr. EDWARDS. Yes, sir.

Senator SCHMITT. Under current market conditions, should those conditions improve, you would expect that gap to narrow. Is that correct?

Mr. EDWARDS. Yes, sir. Perhaps for a brief period of time, even reverse.

Senator SCHMITT. Finally, Mr. Edwards, do you believe there's a lack of credit availability in rural areas; that is, unsubsidized credit availability?

Mr. EDWARDS. No, sir.

Senator SCHMITT. Senator Dixon.

Senator DIXON. Thank you, Mr. Chairman.

Mr. Edwards, you testified that in general the loans that you grant at this time are 15 percent which would be compared to the market generally a relatively favorable loan. What is the rate for a section 502 single family loan right now?

Mr. EDWARDS. I'm not familiar with that, sir. That's a Farmers Home Administration program.

Senator DIXON. Well, that's 12 or 13 percent, isn't it?

Mr. EDWARDS. Somewhere in that area, I think, yes; 13.25 percent, I believe.

Senator DIXON. It's about 12 or 13. Now the subsidized loans under the section 502 program, those loans can go down substantially to a very low rate. It can go as low as 1 percent.

Of course, you haven't come here to this committee in this time of horrible interest rates that are destroying our economy to sug-

gest to us that people aren't happy to have those better rates if they can obtain them, are you?

Mr. EDWARDS. Not at all. I'd like to have one myself, sir.

Senator DIXON. Most people in the country would, Mr. Edwards. We're discussing in this committee a reduction in the subsidized program of 61 percent. This administration will reduce it by 61 percent. We're discussing eliminating the unsubsidized program that hovers around 12 or 13 percent altogether.

Would you say that the housing market is in a serious recession now in this country?

Mr. EDWARDS. Yes, absolutely.

Senator DIXON. Would it be fair to say that some people say it's in a depression now in this country?

Mr. EDWARDS. Yes, sir.

Senator DIXON. Do you think it's going to be an encouraging thing for the marketplace to recieve the good news that the low-rate loans are being eliminated by this administration?

Mr. EDWARDS. I have not studied the budget proposals, sir, but, no, I wouldn't think that would be encouraging.

Senator DIXON. So that what you're testifying to before this committee is that there are plenty of places out there a person can get a loan at the market rate?

Mr. EDWARDS. Yes, sir.

Senator DIXON. If a person would want to pay 17 percent, the person could find a place where one could get that loan, having otherwise sufficiently collateralized his position so he would be considered a decent risk?

Mr. EDWARDS. As a generalization, yes. But, when you talk about a $12,000, $14,000, or $15,000 a year income, at housing costs in some areas, the repayment of those loans is very, very thin. I would move cautiously about completely eliminating that end of the Farmers Home Administration program. There's a limit to how far commercial lenders could go in some areas because of the housing costs relative to repayment ability.

Senator DIXON. Well, isn't one of the problems we have in the country right now that people just won't pay these rates, even the folks that could maybe otherwise qualify for a loan, folks with sufficient collateral, people that are maybe looking at a house, aren't buying a house because they won't pay or can't pay or find it repugnant to pay the rate?

Mr. EDWARDS. I believe that's probably true.

Senator DIXON. Thank you, Mr. Chairman.

Senator SCHMITT. Thank you, Senator. That will be possible.

One final question. Do the Farm Credit Administration programs make loans for rehabilitation?

Mr. EDWARDS. Remodeling, yes.

Senator SCHMITT. What is the level of activity of that right now, any idea?

Mr. EDWARDS. I haven't any idea.

Senator SCHMITT. Any trends that you are familiar with?

Mr. EDWARDS. No.

Senator SCHMITT. Could you provide for the record some information if available?

Mr. EDWARDS. If the data is available, yes.

[The following information was received for the record:]

The Farm Credit Administration does not collect data on the number or proportion of FLB or PCA rural home loans made to remodel or rehabilitate rural homes.

Senator SCHMITT. There are indications throughout the country that in view of the credit crunch for new homes that Senator Dixon was discussing that rehabilitation, is on the upswing. I know my builder friends out in New Mexico have suddenly found that rehabilitation is no longer a dirty word and they are very active in this and have more business than they know what to do with in projects ranging from a few thousand dollars up to some fairly extensive rehab projects. If you could tell us if that experience seems to be borne out by what's happening within the Farm Credit Administration, I'd appreciate it. Thank you, sir.

Our next activity this morning will be a panel consisting of Byron Matthews, secretary, Executive Office of Community and Development for the Commonwealth of Massachusetts; Michael J. Echols, executive director, South Dakota Housing Development Authority, Pierre, S. Dak.; and Hal Wilson, executive director, Housing Assistance Council, Washington, D.C.

Gentlemen, thank you very much for joining us this morning. I hope that you will provide us with a summary of your testimony. The entire testimony will be included in the record, and if you could try to limit yourself to about 5 minutes of summary, then we could get into some questions.

First, Mr. Matthews.

STATEMENT OF BYRON MATTHEWS, SECRETARY, EXECUTIVE OFFICE OF COMMUNITY AND DEVELOPMENT, COMMONWEALTH OF MASSACHUSETTS

Mr. MATTHEWS. Thank you, Mr. Chairman.

I'm Byron Matthews, secretary of the Massachusetts Executive Office of Communities and Development, and I'm here representing the Council of State Community Affairs Agencies in my capacity as vice president and chairman of COSCAA's Housing Committee.

COSCAA represents State departments of community affairs which are executive-level agencies of State government with significant responsibilities in community development, housing, local economic development, community services, and State-local relations. We thank you for the opportunity to give you our views on a State role in rural housing and to comment on your proposed rural housing block grant program.

My comments this morning will be abbreviated and I would respectfully request that our formal statement be included in the record.

[Complete statement follows:]

Statement by
Byron Matthews, Secretary
Executive Office of Communities and Development
Commonwealth of Massachusetts

on behalf of
The Council of State Community Affairs Agencies

Mr. Chairman, I am Byron Matthews, Secretary of the Massachusetts Executive Office of Communities and Development. I am here representing the Council of State Community Affairs Agencies in my capacity as Vice-President and Chairman of COSCAA's Housing Committee.

COSCAA represents State "departments of community affairs," which are executive-level agencies of State government with significant responsibilities in community development, housing, local economic development, community services, and State-local relations. We thank you for the opportunity to give you our views on a State role in rural housing and to comment on your proposed rural housing block grant program.

The following few statistics clearly communicate the dimensions of this country's rural housing problem:

o While rural, non-metropolitan areas contain 20 percent of our population they have 30 percent of our poverty population;

o One of every 13 housing units in rural areas are in substandard condition, compared to one of every 62 in urban areas; and

o 75 percent of the substandard housing in non-metropolitan areas is in communities with 2,500 or less population.

There is little need to provide you with further descriptions of our rural housing needs. This Subcommittee's long-standing interest in and deep concern about rural housing have made you very much aware of our rural housing problems. Other witnesses today as well as those appearing before you earlier have provided you detailed descriptions and analyses of our rural housing problems.

State Involvement in Rural Housing

The proposed rural housing block grant program's success rests on a State competency in and commitment to meeting rural housing needs. A significant degree of that competency and commitment exists through the housing and housing-related activities of many State departments of community affairs (DCAs). Many DCAs operate programs that provide interest subsidized loans, deferred payment loans, or grants for the construction, rehabilitation, and maintenance of rural housing and for the provision of sites and site improvements for rural housing. Funding for these programs comes from State general obligation bonds, revenue bonds, and general revenue appropriations. Additionally, many DCAs are currently administering HUD's Section 8 Existing Housing and Moderate Rehabilitation programs.

The California Department of Housing and Community Development operates several State funded housing programs. It administers a $12 million rehabilitation loan program for both owner-occupied and rental housing. Loans are made to public entities and non-profit corporations which, in turn, lend funds to eligible property owners in the form of low-interest, deferred payment loans. The department also operates:

1) a home ownership assistance program that provides up to 49 percent of the purchase price of a home for eligible low and moderate income families. Upon resale the State shares proportionately in the equity. By the end of 1981, $8.6 million had been committed in this revolving loan fund.

2) a housing advisory service that provides grants of $3,000 to $50,000 to local non-profit community organizations and public agencies to assist owner-builders and self-help rehabilitation in rural areas.

3) a rural housing predevelopment revolving low-interest loan fund for a variety of predevelopment expenses incurred in securing long-term financing for the development

or rehabilitation of subsidized housing for low-income households.

4) a rural land purchase fund that provides low interest loans to local agencies and non-profit organizations for the purchase of land in rural areas for the development of lower income housing.

5) a farmworker housing grant program that provides up to 50 percent matching grants to local public agencies, non-profit corporations, and cooperative housing corporations, for the development costs for new or rehabilitated housing for low-income agricultural employees.

6) a home management training and counseling program wherein direct grants are made to public and private agencies engaged in expanding housing opportunities for lower income residents.

7) a rental housing construction program funded by $82 million in bond funds in which the department (a) "writes down" the development costs of new rental developments, or (b) contracts with local housing authorities to enable them to purchase "rights of occupancy" for lower income households for a period of no less than 30 years, or (c) funds the construction of housing authority-owned and operated rental developments. Twenty percent or more of the units assisted must be in rural areas.

Additionally, the department administers HUD's Section 8 Existing and Moderate Rehabilitation Housing programs in rural areas.

The Colorado Department of Local Affairs administers a $1.9 million State appropriated grant fund for the rehabilitation of low income housing, mostly in rural areas.

The Florida Department of Veteran and Community Affairs operates a State-appropriated low interest revolving loan fund for land acquisition and site development for lower income housing; most of the program's activities are in rural areas. The department also administers State matching grants for local housing rehabilitation activities sponsored by Neighborhood Housing Services. Additionally, the department administers HUD's Section 8 Existing and Moderate Rehabilitation programs in many parts of rural Florida.

The Wisconsin Department of Development administers its Housing and Neighborhood Conservation Program, which is funded by a $25 million bond and $4.5 million in State appropriations. The program provides low interest loans and deferred payment loans for the rehabilitation of lower income, owner-occupied housing. The department also administers a housing grant program to assist low income housing projects.

The Connecticut Department of Housing, which issues general revenue bonds as well as receives State appropriations, operates a number of housing programs. The department:

1) operates a State-funded moderate rental housing construction and rehabilitation loan program,

2) makes grants to local housing authorities to construct housing for the elderly,

3) provides low interest loans for up to 25 percent of the purchase price for moderate income housing,

4) operates a site-development program that provides grants to localities for up to two-thirds of the cost of property acquisition and preparation of blighted structures for rehabilitation,

5) furnishes interest-free loans and low interest "seed money" loans to non-profit housing sponsors,

6) provides localities grants for up to one-third the cost of community

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development projects, and

7) provides grants to local Neighborhood Housing Services programs.

In total, the department has administered nearly $400 million of State funds for housing. Additionally, the department acts as a public housing authority and also administers HUD's Section 8 Existing Housing program.

The New Jersey Department of Community Affairs administers the Neighborhood Preservation Program, which has allocated nearly $4 million in State funds to localities for neighborhood revitalization.

The Pennsylvania Department of Community Affairs receives nearly $16 million annually in State funds to provide grants to local governments, housing authorities, redevelopment authorities, and non-profit organizations for local housing and redevelopment programs.

My own Massachusetts Executive Office of Communities and Development is thoroughly involved in and committed to housing. The State owns and operates over 50,000 units of State public housing, estimated to be a billion dollar investment. In 1980 our General Assembly authorized nearly $180 million in funding for housing operating subsidies, public housing modernization, and neighborhood conservation. The State also appropriated $1.5 million to capitalize a revolving loan program for our Neighborhood Housing Services Fund.

Also, State funds are provided to local housing authorities for low income scattered site family housing, for the construction or rehabilitation of housing for the elderly and handicapped, and for a rental assistance program.

Finally, in an effort to deal with the effects of displacement, we are administering a State-funded condominium demonstration program wherein we purchase condominium units for low income elderly persons.

In addition to these illustrative examples — and note that I have not included descriptions of all of the housing related activities of State departments of community affairs nor any of those of other State agencies — I would like to point out that the 12 States in the Appalachian Regional Commission have had several years of experience in operating what has been essentially a housing block grant program oriented to rural areas.

Finally, I think that it is important to note that over the past four years the California Department of Housing and Community Development, the Colorado Department of Local Affairs, the Illinois Department of Commerce and Community Affairs, and the West Virginia Housing Development Fund have been operating, in conjunction with HUD and FmHA, a housing and community development program in remote rural areas. The States have worked with local governments, community action agencies, regional councils of government, and non-profit sponsors as well as private developers to bring much needed housing and public works to very poor, small, remote rural areas. In this successful demonstration, the States have been able to leverage and coordinate State programs and HUD, FmHA, CETA, and other federal programs in an efficient, cost-effective manner.

Last year COSCAA testified before the House and the Senate on the Administration's proposal to transfer to the States the responsibility for HUD's Small Cities Community Development Block Grant Program. Much skepticism and anxiety and some degree of hostility and opposition greeted the proposal. Now, one year later, nearly all of that opposition and skepticism has been elimated or substantially muted.

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Over two-thirds of the States are choosing to administer the State Block Grant Program for FY 82, with the departments of community affairs being the administrative agency in all but one instance. Generalizations that are relevant to the rural housing block grant proposal can be drawn from the eight or so months of State activity in this program.

First, States actively sought and gained thorough local involvement in the program. Local elected and administrative officials as well as representatives of other local concerns actively participated in and substantially influenced the setting of policy goals, program objectives, and fund distribution systems. The expereince has not only fostered and strengthened State-local relationships but is resulting in a program that will meet both local needs and national objectives.

Second, States have substantially lessened the administrative red tape, long processing times, and "grantsmanship" characteristics that so marked the HUD-administered program. The program is now far easier for communities.

This is significant because the third generalization that can be drawn is that most States are emphasizing allocations to smaller, more rural areas than was the case under HUD administration. Many smaller communities will be receiving HUD funds, indeed any federal funds, for the first time under the State program.

Fourth, grant funds will probably be allocated much more to poorer, higher-need communities than in the past. Poverty and income levels and unemployment and substandard housing criteria are being more prominently used in many States compared to prior years.

Fifth, the States are highlighting the importance of providing technical assistance, especially to the smaller communities, so that communities can achieve their program objectives.

States are just in the initial stages of this program, but already many are labeling it a successful example of the changing nature of federal-State-local relationships. The States' experience in the CDBG program as well as their experience in State-funded housing and housing-related programs and in administration of HUD's Section 8 Existing and Moderate Rehabilitation programs all point to a State capacity for administering a rural housing block grant. Interestingly, just as we had the successful example last year of two States, Wisconsin and Kentucky, with experience in a CDBG demonstration, this year we have the successful example of four States, West Virginia, Illinois, Colorado, and California in a demonstration program for housing and public facilities in remote rural areas.

Advantages of a Rural Housing Block Grant

Before discussing a rural housing block grant, I want to strongly emphasize COSCAA's support for a continuation of FY 82 budget levels at a minimum for rural housing regardless of who administers what kind of rural housing program. Domestic programs, especially housing programs, have taken more than their fair share of cuts. We cannot even begin to solve our low income housing problems without a substantial federal financial commitment.

There are several probable advantages or benefits that, based on the experiences noted above, especially with the State CDBG program and the rural demonstration, would

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accompany a rural housing block grant to the States. I'll save the most significant one to last and initially comment on several others.

First, one could expect overall reduction in procedural requirements, application forms, procedural rules and regulations, and the length of time in securing funds for housing. There will be appropriate procedures and safeguards, of course. But when rules, procedures, and decision guidelines have to be framed for national application, it is difficult for them not to become overly complicated and time-consuming, particularly when they are administered by people necessarily employed in very large, bureaucractic organizations with many layers of hierarchy. Simple administration and administrative requirements are especialy critical in smaller, less sophisticated rural areas.

Second, one could probably expect better knowledge and understanding of local issues, conditions, resources, and problems. FmHA is deservedly noted for its decentralized, "grass roots" organization. However, even when staffing levels are high, which they are not at this time and for the forseeable future, the scope of contact and familiarity can be somewhat narrow. In my department alone, for example, we deal with local communities over issues related to a wide variety of State funded housing, local economic development, and community revitalization programs, State building codes, and federally funded programs such as the State CDBG program, low-income weatherization, low income energy assistance, and the community services block grant. We also provide a range of technical assistance services to local governments. In addition, we work closely with other State departments in dealing with communities over issues related to water and sewers, transportation, and environmental regulations. This kind of knowledge and awareness and sensitivity to local concerns can facilitate and complement State administration of a rural housing block grant.

Third, technical asistance would be a very important component of a rural housing block grant program. Our current provision of technical assistance in similar areas gives us the experience to accompany a rural housing block grant with a competent program of technical assistance. We place a high value on working with smaller communities and developers to ensure the appropriate management of grant funds and the attainment of program objectives.

Finally, I think that all of the above potential benefits could lead to a program that would be more accountable and more cost-efficient. Knowledge of local institutions, sensitivity to local concerns, simplified administration, and a lessened capacity to "pass-the-buck" to an out-of-State office could ensure cost-savings and responsiveness.

The most significant advantage of a rural housing block grant is implicit in much of what I have already indicated. In these times of very scarce resources it is absolutely necessary to use resources in an integrated, reinforcing, and complementary manner. The range of State-funded programs and, very importantly, State administration of the Community Development Block Grant and Community Services Block Grant programs can pave the way for a most effective use of housing and community development resources in rural areas.

It has always been somewhat difficult in the past to coordinate HUD and FmHA programs in rural areas. The possibility of that coordination now exists because of increased State responsibilities. For example, the provision of water and sewer facilities is the first step that must be taken in many rural areas to provide adequate housing. Consequently, many States are shifting CDBG priorities in rural areas in that direction. A rural housing block grant would be an excellent way to provide complementary housing

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resources. In many instances, State management of the CDBG program could be leveraged with a rural housing block grant to provide a depth of assistance necessary to benefit very poor households and very poor neighborhoods.

In addition to these examples of coordinated and complementary uses of scarce resources, the expectation of greater State involvement in federally funded employment training programs and the possibility of a greater State role in HUD's housing rehabilitation programs can but add to the benefits that can accrue from a rural housing block grant to the States.

In short, a rural housing block grant can be a key link in beginning to provide, probably for the first time, an efficient, comprehensive rural development program that is sensitive to local needs and conditions.

Some Suggestions for a Rural Housing Block Grant

We realize that the rural housing block grant has yet to be finally crafted and detailed; I want to offer you the assistance of COSCAA members and staff in further deliberations on the proposal if you so desire. Let me take this opportunity now, however, to offer some quick thoughts on the proposal as it currently stands, if the Subcommittee wishes to pursue this policy alternative.

First, a multi-year authorization is essential. The production of housing is a complex task and the need to fit a rural housing block grant into the operations of other programs has already been mentioned. Coupling this with the need for planning and scheduling makes a multi-year authorization necessary.

We realize, second, that the amount of dollars realistically available cannot meet our rural housing needs. But we do urge that the amount authorized annually in a rural housing block grant be of a sufficiently minimum level to accomplish a meaningful and cost-efficient operation in individual States.

Third, we strongly recommend that the optional phase-in of the program be kept. Between federal changes in authorizing legislation and budget reductions this year and last year, States may need a chance to schedule and plan for administration of a new block grant program. While many States, as I have indicated, have significant rural housing experience, others may need to spend a year to build a more effective capacity to manage a rural housing block grant.

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A small amount of funds for transition technical assistance and capacity-building would be dollars well spent. HUD currently has such a program linked with its State CDBG program; it has substantially helped States get ready for block grant implementation. Although the funds would be small, they would be an immeasurably wise investment, especially if they could be financed from a flexible or discretionary funding source.

Fourth, we respectfully suggest that the requirement for a State match for administration be eliminated. The CDBG program is essentially a "pass-through" program unlike, it appears, this proposal that would require significant direct administration. We have no objection to limiting the amount of money from the grant that can be used for administrative purposes, say to four percent.

Fifth, the provisions requiring that States provide 10 percent of the amount allocated through the block grant from its own resources for rural housing and that States not reduce support for rural housing activities are very problematic. We respectfully suggest that they be eliminated. The State legislative appropriations process, the uncertainty and timing of federal budget reductions and program changes, and the mercurial and presently adverse nature of the bond market make these provisions nearly impossible to enforce and to implement.

Finally, we recommend that the bill be drafted in such a way so as to expressly encourage the use of funds for construction and rehabilitation. While rental assistance may be necessary, the major problem in most rural areas is adequacy of housing stock. This will be even more true in the future given the proposed changes in authorization for HUD's housing programs.

Mr. Chairman, these are our comments and suggestions at this time. Again, we are appreciative of the opportunity you have given us this morning and offer to work with you and your staff in the future. I will be happy to answer any questions you may have.

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Mr. MATTHEWS. There's little need to provide this subcommittee with statistics on rural housing needs. However, since Massachusetts is often thought of as a very urban State, I want to share with you some information on rural housing needs in Massachusetts.

Despite some perception as an urbanized State, Massachusetts is largely a rural State. More than 60 percent of the land area in the Commonwealth is comprised of towns of population under 10,000. Of the 351 cities and towns in Massachusetts, 204 or 58 percent have populations under 10,000, and 84 of these have populations under 2,500.

Rural Massachusetts is experiencing a tremendous demand for housing. According to the 1980 census Massachusetts rural population grew by 19 percent over the decade while the State's total population grew by only eight-tenths of 1 percent. This growth has resulted in the shift of housing production to rural communities. Over half of all the housing built since 1970 was in rural communities. This represents an annual housing growth rate of 3.5 percent a year in rural communities and to fully appreciate the impact of these figures you must realize that rural communities in the State also suffer from the highest percentage of substandard housing units in the Commonwealth with fully one-half of the housing stock in these communities having been constructed prior to 1940.

Before discussing a rural housing block grant program, I want to strongly emphasize COSCAA's support for at least a continuation of the fiscal 1982 budget levels for rural housing regardless of who administers what kind of a program. Domestic programs have taken more than their fair share of cuts. We cannot even begin to solve our low-income housing problems without a continued substantial Federal financial commitment.

The proposal rural housing block grant rests on a State's competency and commitment to meet rural housing needs. A significant degree of that competency and commitment does exist through the housing and housing-related activities of many State departments of community affairs. Many DCA's operation program that provide interest subsidized loans, deferred payments loans, or grants for construction, rehabilitation and maintenance of rural housing and for the provision of development of sites for rural housing.

Funding for these programs are provided through State general obligation bonds, general revenue bonds and general revenue appropriations. Additionally, many DCA's are currently administering HUD's section 8 existing and water rehab programs.

My written statement gives illustrated examples of such activities in many of the DCA's. I would like here to highlight what we are doing in Massachusetts.

OPERATING WITH STATE FUNDS

In Massachusetts, as in the rest of the Nation, the problems of housing availability and affordability are severe. We are, however, aggressively using our own State resources to help overcome these problems. We have built and operated entirely with State funds about 56,000 units of public housing for elderly and low-income families. We will spend this year alone over $110 million for public housing construction and modernization. In addition, each year, we

spend about $65 million to operate State-aided public housing. Again, all these figures are entirely from State tax revenues.

Of the State funds awarded for the construction of new public housing this year, fully 25 percent was awarded to rural communities. In addition, State administration of the section 8 rent assistance program has expanded the distribution of these funds to regional nonprofit housing corporations which has provided increased mobility and opportunity for housing assistance in the Commonwealth's rural communities.

I'd also like to mention an executive order which was recently signed by Governor King and it says that the State development assistance should be awarded to cities and towns which are not unreasonably restrictive of housing growth, and in broader terms, it requires that before any city or town in the Commonwealth can receive any funds for economic development, open space acquisition, roads or the like, they must have an acceptable housing plan which they are aggressively implementing to be sure that all communities within the Commonwealth of Massachusetts will accommodate their fair share of badly needed housing growth. I have copies of that executive order which I'll leave with you, Mr. Chairman.

Senator SCHMITT. Thank you.

[The information follows:]

Commonwealth of Massachusetts
Edward J. King, Governor

Executive Office of Communities and Development
Byron J. Matthews, Secretary

Local Housing Policies and State Development Assistance

A Guide to Executive Order No. 215

March 1982

Dear Massachusetts Citizen:

Housing is a basic human requirement. An ample supply of housing, with diversity in price and location, is necessary for a continued strong state economy. However, the Commonwealth is presently experiencing serious housing cost inflation and a critical housing shortage.

High interest rates are clearly a major source of the problem of housing affordability, both here in Massachusetts and nationally. But the shortage of needed housing development is also caused in part by negative local attitudes in some communities towards residential development. When one community excludes housing growth, it places an unreasonable burden on other communities, and it hurts the Commonwealth as a whole.

In response to this problem, Governor King recently issued the following Executive Order directing all state agencies to withhold awards of state development assistance to communities which have been unreasonably restrictive of housing growth. As a result, in reviewing local applications for discretionary state funds, it will be the policy of all state agencies to withhold funding from those communities which have been determined to be exclusionary. In its simplest terms, this means that communities which routinely exclude housing growth can no longer expect to receive state development assistance or favorable comments on their applications for federal assistance.

The Executive Office of Communities and Development has prepared this brochure to explain the Executive Order, how it will be implemented, and how communities can work to ensure the continued availability of state development-related grants.

I urge you to give it your careful consideration.

Sincerely,

Byron J. Matthews

Byron J. Matthews
Secretary

COMMONWEALTH OF MASSACHUSETTS

By His Excellency

EDWARD J. KING
Governor

EXECUTIVE ORDER NO. 215
DISBURSEMENT OF STATE DEVELOPMENT ASSISTANCE

Preamble

The development of affordable housing is critical to meeting the needs of the Commonwealth's population. In order to accommodate the growing housing needs of our population, Massachusetts needs to add to its housing supply over the next decade. Without a supply of affordable housing, Massachusetts will find it more difficult to attract and retain industry.

Massachusetts provides funding to its cities and towns through a variety of programs designed to foster sound growth and development. The distribution of discretionary funds should, to the maximum extent feasible, promote the balanced growth of the Commonwealth.

In some cities and towns, local regulations and restrictions have the effect of excluding the development of affordable housing. In so doing, they have imposed development costs inequitably on other communities and have impaired the ability of our citizens to locate affordable housing. It is appropriate, therefore, in the review of local applications for state development assistance that the city's or town's housing policies and practices be taken into consideration. This shall be accomplished so as not to infringe upon the constitutional right to home rule.

WHEREAS, housing growth, economic development, and environmental protection are statewide needs which are not mutually exclusive and are each vital to the balanced growth and development of the Commonwealth; and

WHEREAS, an ample supply of housing, with diversity in price and location, is necessary both for the well being of our citizens and for a strong state economy; and

WHEREAS, state development assistance should be awarded to cities and towns which are not unreasonably restrictive of housing growth;

NOW THEREFORE, I, Edward J. King, Governor of the Commonwealth of Massachusetts, by virtue of the authority vested in me by the Constitution and by the statutes of this Commonwealth, do hereby order and direct that:

1. All state agencies disbursing development-related financial assistance to cities or towns should consider, in making such discretionary awards, the applicant city's or town's housing policies and practices. It should be the general policy of all state agencies not to award discretionary funds to cities or towns which have been determined to be unreasonably restrictive of new housing growth. For the purposes of this Executive Order, "development-related assistance" may include (but is not limited to): economic development assistance; open space and recreation funds; technical assistance grants; so-called "urban systems" transportation improvements; conservation land grants; elderly housing; sewer collection system and water system grants; parking facility funds; convention center facility grants; federal grant funds for development-related activities; and the review of federal grant applications for development assistance. For the purpose of this Executive Order, "development-related assistance" does not include local aid fund reimbursements or distributions.

2. The Secretary of Communities and Development (hereinafter, the Secretary) shall make a determination, based on evidence submitted to him, regarding whether a city or town is or is not unreasonably restrictive of housing growth. In making this determination, the Secretary shall give

special consideration to the city's or town's efforts to facilitate the development of housing for low and moderate income families. The city or town shall be notified in writing of the determination, and a negative determination shall be re-evaluated upon a showing of a significant effort toward policy re-direction. A listing of all determinations shall be distributed on a regular basis to all state agencies which disburse development-related assistance.

3. Evidence may be submitted to the Secretary at any time regarding a particular city's or town's housing policies and practices, in accordance with procedures established by the Secretary. A copy of such evidence shall be forwarded to the chief elected official of the city, or the board of selectmen of the town, and the city or town shall be provided an opportunity to respond to the evidence as submitted. The Executive Office of Communities and Development shall solicit housing information from time to time, in order that a state housing profile may be compiled.

4. The Secretary shall respond within 14 days to requests from agencies regarding whether a specific city or town is or is not unreasonably restrictive of housing growth. If the timely award of assistance is critical, the Secretary may waive this review period. Each state agency which disburses development-related assistance to cities and towns shall cooperate with the Executive Office of Communities and Development to establish a mutually acceptable procedure to review, based upon the Secretary's heretofore declared determination of an applicant city's or town's housing policies, what course of action should be required on the application for the development related assistance.

5. Exceptions to the above defined requirements shall be granted for awards that are regionally significant, unique, or in the public interest upon petition of the Cabinet Secretary responsible for the funding agency to, and with the concurrence of, the Commissioner of Administration.

6. The Executive Office of Communities and Development, at the request of the city or town, shall provide assistance to those cities and towns which have been determined to be unreasonably restrictive of new housing growth to develop a specific strategy, with clearly defined actions, to facilitate the development of affordable housing. Once a strategy has been developed, and it has been approved by the Secretary and by the appropriate local boards and commissions responsible for its implementation, the Secretary shall make a determination that the city or town is not unreasonably restrictive of new housing growth, and shall so notify all appropriate state funding agencies.

Given at the Executive Chamber in Boston this 15th day of March in the year of Our Lord one thousand nine hundred and eighty-two and of the Independence of the United States of America two-hundred and six.

Edward J. King

EDWARD J. KING
GOVERNOR
Commonwealth of Massachusetts

How will a community's housing policies be linked with state development-related grants?

Governor King, through an Executive Order, has directed all state agencies which administer development-related assistance programs to consider the applicant community's housing policies and practices. It will be the policy of state government that no grant awards be made to communities which have been determined to be unreasonably restrictive of new housing growth. Such determinations will be made by the Secretary of Communities and Development.

Which state programs will be affected?

In general, this Executive Order applies to all state development assistance programs. Specifically, the following programs will be affected:

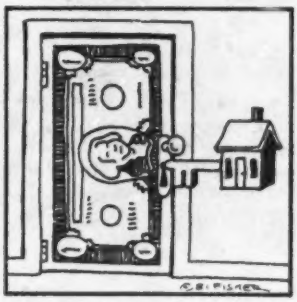
- ☐ economic development assistance;
- ☐ open space and recreation funds;
- ☐ technical assistance grants;
- ☐ so-called "urban systems" transportation improvements;
- ☐ conservation land grants;
- ☐ elderly housing grants;
- ☐ sewer collection and water system grants;
- ☐ parking facility funds;
- ☐ convention center grants;
- ☐ federal block grant funds (administered by state government) for development-related activities; and
- ☐ the state's review of federal grant applications for development assistance.

Any community which is routinely excluding housing growth will be denied future grants under the above programs. (It should be noted that the Executive Order will not affect ongoing state investment programs for transportation and wastewater facilities.)

Under regulations promulgated by the federal Office of Management and Budget (OMB) known as "A-95," state government has an opportunity to review and comment on virtually all applications for federal assistance. Where the applicant community has been determined to be unreasonably restrictive of new housing growth, the state's review will indicate that, due to this fact, state government cannot support the application for federal funds.

Does this new policy conflict with local "home rule"?

State government is not attempting to dictate local housing policies. Those policies are appropriately made at the local level. This state policy does *not* infringe on local government prerogatives to determine local zoning and subdivision regulations, nor does it directly interfere with any local action dealing with housing issues.



However, state government does have a responsibility, in deciding how to allocate *state* funds, to ensure that those funds support overall *state* policies. At this time, the state faces a critical shortage of affordable housing, while housing production levels continue at an all time low. The consequences of an escalating housing shortage could be disastrous. If this situation is to be improved, then each community will have to accommodate its "fair share" of housing growth. When any one community decides to exclude housing growth, other communities often bear the brunt of that decision. The state cannot continue to "reward" exclusionary communities with state discretionary funding.

With population growth levelling off, do we really need that much additional housing?

It is true that Massachusetts population growth is levelling off — our population grew by slightly less than 1% between 1970 and 1980. But the growth of *households* continues at a substantial rate, nearly 18% over the past decade, and about 16% is projected between 1980 and 1990. This high level of growth in households is due in large part to the children of the so-called "baby boom" who are now adults and are entering the housing market in ever increasing numbers. In addition, there is a growing number of smaller households of single people, widowed or divorced persons, and the elderly.

Several independent studies have indicated that the housing needs of the Massachusetts population will translate into demand for at least 35,000 additional units of housing each year through the 1980's. But

even with this high level of demand, we've only been constructing on the average of about 20,000 units per year since 1975. This compares with over 60,000 units per year in the early 1970's. We just aren't producing new housing fast enough to meet the demand. As supply goes down and demand increases, prices continue to rise. The result is that we are all hurt — homeowners, renters, developers, building trades, businesses, young families, the elderly — by the growing housing shortage.

A number of factors contribute to our shortage of affordable housing. Some of these factors, such as high mortgage interest rates, may be beyond our control here in Massachusetts. But one of the major obstacles — exclusionary local housing policies and practices — is a factor which we can do something about.

How will a community be determined to be "unreasonably restrictive of new housing"?

The Secretary of Communities and Development will determine that a community is "unreasonably restrictive of new housing growth" only after all three of the following conditions have been met:

1. there is clear and persuasive evidence presented indicating that the community has routinely excluded housing growth;

2. the community has been given an opportunity to respond to that evidence, and it has not satisfactorily disputed the facts as presented; and

3. the community has not developed a specific strategy, with clearly identified actions, to facilitate the development of affordable housing.

Therefore, before any such determination is made, the community will be given an opportunity to refute the factual evidence submitted, and to present its strategy for responding to the situation as it exists.

How does someone present evidence on a community thought to be "exclusionary"?

Evidence regarding a specific community can be submitted to the Secretary of Communities and Development by any of the following:

- ☐ a local board or local elected official from that community;
- ☐ the regional planning agency;
- ☐ ten or more residents of the community;
- ☐ a housing developer aggrieved by a specific local action; or
- ☐ the Massachusetts Commission Against Discrimination.

In addition, the Executive Office of Communites and Development will be collecting information on all communities to be used as a basis for comparison.

A copy of evidence submitted will be forwarded to the affected community, through its chief elected official, and the community will be given an opportunity to respond.

Evidence submitted must *clearly* demonstrate at least one of the following findings: (a) that the recent rate of housing construction in the community is substantially lower than the rate of similar communities in its region; (b) that the community's policies and regulations tend to exclude affordable housing; or (c) that the community has routinely denied approvals for housing proposals.

Will a community be given an opportunity to respond?

Before any determination is made that a community has unreasonably excluded housing growth, the affected community will be provided with two opportunities to respond.

First, the community will be able to dispute the factual evidence submitted. For example, incorrect or obsolete data may have been submitted. Or, unique local characteristics (such as a large share of publicly-owned land) might explain low housing growth.

Secondly, the community will be able to formulate a specific strategy, with clearly identified actions, to facilitate the development of affordable housing. For example, the community might decide to revise its zoning to allow innovative housing options (such as the "four-plex"), or to provide incentives for the development of affordable housing. The formulation of specific actions would be totally a local responsibility. Any plan must have the net effect of stimulating more housing and

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less expensive housing. If the strategy is found to be acceptable by the Secretary and it has been approved by the appropriate local boards and commissions responsible for its implementation, then the community will be determined to be *not* unreasonably restrictive of new housing growth.

Only when a community is unable to respond effectively to either of these opportunities will a determination be made that the community is unreasonably restrictive of new housing growth.

When a community has been determined to be "exclusionary," what are the immediate impacts?

Once a community has been determined to be "exclusionary," the Secretary of Communities and Development will notify:

- the community, through its chief elected official;
- the Governor;
- all state agencies disbursing development-related financial assistance; and
- the "A-95" Clearinghouse, along with the Federal Regional Council.

The notification will indicate that, under normal circumstances, development-related grant awards will not be made to the identified community, pursuant to the Executive Order.

In addition, when any state agency is considering making a grant award, it will notify the Executive Office of Communities and Development (EOCD) at least 14 days prior to any final award decision. Within that period of time, EOCD will notify the agency if a determination (one way or the other) had been previously made. If no determination regarding a particular community had been made previously, the Secretary might utilize that period of time to make a determination, if there were evidence warranting such action.

Will this disrupt ongoing grants and the projects they support?

The Executive Order does not apply to ongoing grants, or to existing project commitments. These will not be disrupted. The intent of the Executive Order is to limit *future* awards of state development grant funds to only those communities who are not exclusionary.

Once a community has been determined to be "exclusionary," how can the community get that determination changed?

The determination will be reviewed after six months. If the community has developed an acceptable strategy and it has demonstrated its commitment to implement that strategy, then the determination will be changed, and funding agencies will be so notified.

Will exceptions to this policy be granted?

Exceptions to the Executive Order will be granted *only* for projects that are regionally significant and unique, and *only* upon petition of the Cabinet Secretary with oversight of the funding agency, and *only* upon the concurrence of the Secretary of Administration and Finance.

If a community has developed subsidized housing, is that sufficient to satisfy the Executive Order?

The Governor issued the Executive Order based on a concern about the *overall* shortage of affordable housing — public and private. Subsidized housing plays an especially important role in meeting the needs of elderly and low-income families. But, even with our greatly expanded efforts to provide subsidized housing, the vast majority of our residents will meet their housing needs through the private housing market. And while our programs to provide subsidized housing have become increasingly successful, private housing production is at an all time low — and that private housing which is being built is beyond the reach of 90% of our residents.

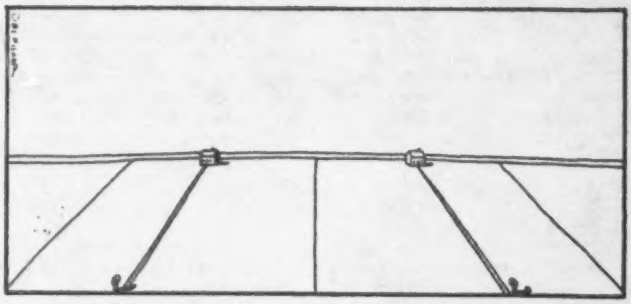
As a result, this new state policy is aimed at limiting state development grants to only those communities whose policies promote an increase in the overall supply of housing. The development of subsidized housing — particularly if only housing for the elderly — will *not*, in and of itself, demonstrate that a community is accommodating its fair share of housing growth.

Nevertheless, in reviewing local housing policies and practices, the community's efforts to facilitate the development of housing for low-income *families* will be given special consideration.

Has this new policy been tested? Will it create more "red tape"?

This Executive Order — and the policies it represents — was developed after a review of a two-year program which linked state grants for conservation lands to each applicant community's housing policies and practices. Of the 64 communities which applied for state conservation funds, six were identified as having accepted less than their fair share of growth. Five of these communities signed agreements outlining specific commitments they would undertake to ensure broadened housing opportunities — and these five communities received state funding. Only the one community which refused to make any commitments to address its housing needs was denied funding. In all other cases, the review process worked smoothly, with a minimum of "red tape."

For those communities who are already accepting their fair share of housing growth, this new policy will *not* mean *any* additional "red tape." And, for those communities who have been attempting to exclude affordable housing, this new policy will only force them to confront the problem which they have been fostering.



What are some examples of exclusionary local practices?

"Exclusionary local practices," is meant to include any local policy or regulation which, intentionally or not, has the effect of excluding the development of affordable housing. Some specific examples might be:

- ☐ a moratorium on new housing;
- ☐ large lot zoning for most of the developable land within the community;
- ☐ subdivision regulation which dictate standards far in excess of what is in existence in the rest of the community, with regard to such items as street width, granite curbing, or sidewalks;
- ☐ zoning which does not permit any multi-family housing, nor any two, three, or four-unit housing (such as the "quadraplex");
- ☐ refusals to grant permits for any specific multi-family housing proposals, where they are allowed only on special permit;
- ☐ zoning which does not permit older, larger homes to be subdivided to create "accessory apartments";
- ☐ refusal to endorse the Area-wide Housing Opportunity Plan;
- ☐ local Board of Health regulation of septic systems in excess of Title V of the State Environmental Code with no clear justification; or
- ☐ the lack of any housing in the community for low-income families.

It should be noted that any of the examples cited above might be an entirely appropriate response of the community to a legitimate problem it faces. But with no clear evidence to the contrary, and where the net effect is to exclude housing growth, such practices will be judged to be *exclusionary*.

At the same time, it should be clear that no adverse judgment will be made when a community denies approvals to a housing proposal which is demonstrably unreasonable or which does not fulfill minimum criteria established by the community. The distinction will be this: Is the community fighting *against* housing, or is it planning *for* new housing growth.

What can a community do now to insure that it will continue to be able to receive state grants in the future?

If a community believes that it is accommodating its "fair share" of housing growth and that its local policies and regulations have not tended to exclude affordable housing, then it can petition to be found *not unreasonably restrictive of housing growth.*

In looking at your community to see if it has been exclusionary, you might want to consider the following questions:

☐ Has the community adopted any of the exclusionary policies outlined above? Do these actions clearly tend to exclude affordable housing?

☐ Has there been as much housing growth in your community as there has in similar communities? Has the housing that has been built been as affordable as it might have been?

☐ Would a young couple be able to find housing in your community? Would an elderly couple be able to sell their large home and move to more suitable housing (such as an apartment or condominium) while staying in your community?

☐ What has been the typical local reaction to housing proposals? Do people in town usually react negatively to proposed housing developments, or does the community have a plan *for* growth?

Even if previous actions of the community have tended to be exclusionary, the community can develop a strategy or program to accommodate housing growth, and on that basis can petition to be found *not unreasonably restrictive of housing growth.* Once such a strategy has been determined to be acceptable by the Secretary

of Communities and Development, and it has been approved by the appropriate local boards and commissions responsible for its implementation, then the community will be classified as not exclusionary.

The strategy should identify specific actions which the community intends to undertake and which are designed to foster the development of affordable housing. The community can specify whatever actions it deems appropriate, so long as those actions will stimulate additional housing.

In formulating a local strategy to foster the development of affordable housing, the community should consider the following actions:

☐ *Establish a housing goal for the community:* Determine how much housing the community can reasonably accommodate each year, and set out to plan for that level of growth.

☐ *Plan for a diversity of housing types and prices:* If a community only provides for single-family homes on large lots, then housing opportunities for the elderly, young families, and moderate-income households become severely limited. Consider various densities and types of housing, and see where they might fit into the community.

☐ *Explore alternatives which allow more housing and which consume less land:* There are various newly developed approaches by which a community could increase the number of housing units without any adverse impacts on its character. For example, some communities now permit larger older homes to be subdivided to create an "accessory apartment." Another approach is the development of two, three, or four-family housing, such as the "quadraplex" design being promoted by the Greater Boston Real Estate Board. Cluster zoning, another alternative, allows a modest increase in density while preserving open space. These and other alternatives deserve consideration and, where appropriate, communities should amend their zoning accordingly.

☐ *Find ways to make housing more affordable:* Sometimes, local regulations unnecessarily add to the cost of housing. For instance, some communities have local subdivision regulations which specify site standards which are far in excess of what exists in the remainder of the community. Some examples might include excessive roadway width, granite curbing, and sidewalks on both sides. This is unnecessary and it adds substantially to the cost of new housing.

☐ *Simplify the local review process:* All too often, the process for obtaining all the necessary local permits to build housing can be time-consuming, confusing, and frustrating. This need not be so. Frequently, the problem lies in the lack of coordination among local boards and commissions. A developer might get one answer from one board and a different answer from another board. It might also be unclear in which order

local permits should be obtained. One of the first steps for a community is to develop a "roadmap" of the local review process. The various boards and commissions involved should work together to resolve mutual problems and conflicts. One agency might be given a coordinating role. Duplicative, conflicting, or unnecessary steps in the review process can be identified, and the entire process can be made to work better both for the community and for prospective developers.

☐ *Develop a program to provide housing for low-income families:* Even with improved, simplified, and more flexible regulations, housing for low-income families cannot be built without some form of state or federal subsidy. Currently, there are available state and federal programs which provide funding to develop or acquire housing for low-income families. Each community should formulate a program to accommodate its fair share of low-income family housing.

For any of these issues, there is no one standard solution. Each community will have to develop its own strategy, to meet its specific housing needs, in keeping with its particular conditions and circumstances. All of the various local agencies, boards, and commissions which are involved in housing development should play an active role in formulating the appropriate local strategy.

In order to obtain more information on this Executive Order, who should be contacted?

The Executive Office of Communities and and Development will be responsible for coordinating the implementation of this Executive Order. They will be working with each state agency responsible for disbursing development-related financial assistance, to insure that local housing policies and practices are considered in the grant award decisions of state agencies. Specifically, Communities and Development will be determining which communities are or are not exclusionary, and forwarding those findings to the appropriate state agencies.

For further information, contact:
Joseph L. Flatley,
Assistant Secretary
Executive Office of
Communities and Development
100 Cambridge Street
Boston, Massachusetts 02202

Mr. MATTHEWS. Last year, COSCAA testified on the administration's proposal to transfer to the States the responsibility for HUD's small city community development block grant program. Much skepticism and anxiety and some degree of hostility and opposition greeted this proposal.

Now, 1 year later, nearly all that opposition and skepticism has been eliminated or substantially muted. Over two-thirds of the States are choosing to administer the State block grant program for 1982 with DCA's as the administering agency in all but one instance.

STATE ACTIVITY IN THE CDBG PROGRAM

Several important conclusions relevant to the rural housing block grant can be drawn from State activity in the CDBG program. First, States actively sought and gained local involvement in the program. Local elected and administrative officials as well as representatives from all local concerns actively participated in and substantially influenced the setting of policy, goals, program objectives, and the fund distribution systems.

The experience has not only fostered and strengthened State-local relations, but is resulting in a program that meets both needs and national objectives. Second, States have substantially lessened administrative redtape, lost processing time, and grantsmanship. The program is now far easier for local officials. This is significant because most States are emphasizing allocations to smaller more rural areas than was the case under the HUD administration. Many smaller communities will be receiving HUD funds, indeed any Federal funds, for the first time under the State programs.

Fourth, grant funds will probably be allocated to poorer, higher need neighborhoods than in the past. Poverty and income levels and unemployment in substandard housing criteria are being more prominently used by many States when compared to HUD.

Fifth, the States are highlighting the importance of providing technical assistance, especially to the smaller communities, so that localities can achieve their program objectives. The States' experience in the CDBG program as well as the experience in State-funded housing and housing-related programs and administration of HUD's section 8 existing and moderate rehab programs all point to a State capacity for administering the rural housing block grant.

Interestingly, just as we had successful examples of two States, Wisconsin and Kentucky, in the CDBG demonstration experience, this year we had the successful examples of four other States—West Virginia, Illinois, Colorado, and California—in a housing and community development demonstration in remote rural areas.

There are several possible advantages based on past experiences, especially with the States' CDBG program, that could accompany a rural housing block grant to the State if this subcommittee chooses to pursue that policy alternative. The most significant advantage of a rural housing block grant is implicit in much of what has already been said. In these days of increasingly limited resources, it's absolutely necessary to use these resources as an integrative and reinforcing and complementary manner. The range of State-funded programs and, very importantly, State administration of the CDBG

program and the CSPG program can pave the way for a most effective way to use housing and community developed resources in rural areas.

It's always been somewhat difficult in the past to coordinate HUD and FHA programs in rural areas. The possibility of such coordination now exists because of the increased State responsibility. For example, the provision of water and sewer facilities is a first step that must be taken in many rural areas to provide adequate housing. Consequently, many States are shifting CDBG priorities in rural areas in that direction.

A rural housing block grant would be an excellent way to provide complementary housing resources. In many instances State management of the CDBG program can be leveraged for the rural housing block grant to provide the depth of assistance necessary to benefit very poor households and very poor neighborhoods.

In addition to these examples of the coordinating and complementary use of a scarce resource, the expectation of greater State involvement in federally funded employment training programs and the possibility of a greater State role in HUD's rehab programs can add to the benefits that can accrue from a rural housing block grant to States.

We realize that the rural housing block grant is yet to be finally crafted in detail. I want to offer you the assistance of COSCAA members and staff in any further deliberations on the proposal if you desire. Let me take this opportunity now, however, to offer some quick thoughts on the proposal.

First, a multiyear authorization is essential. The production of housing is a complex task and the need to fit a rural housing block grant in the operation of the program has already been mentioned. Coupling this with the need for planning and scheduling makes a multiyear authorization necessary.

We realize secondly that the amount of dollars realistically available cannot meet our rural housing needs, but we do suggest that any amount authorized in the rural housing block grant be at a sufficient minimum level to effect a meaningful and cost-efficient operation in each State.

We respectfully suggest that the requirements for State match for administration be eliminated. The CDBG program is essentially a passthrough program, while it appears that this proposal would require significant direct costs.

Fourth, the provisions requiring that States provide 10 percent of the amount allocated to the block grant from its resources for rural housing and that States not reduce support for rural housing activities are very problematical. We respectfully request that they be eliminated. The State legislature appropriations process, the uncertainty and timing of Federal budget reduction and program changes, the changing nature of the bond market, would make these provisions nearly impossible to enforce and to implement.

Finally, we recommend that the bill be drafted in such a way so as to expressly encourage, if not implicitly direct, that most of these funds be spent on construction and rehabilitation. While rental assistance may be necessary in many rural areas, the major problem is adequate housing stock. This will be even more true

with the future proposed changes for authorization for HUD's housing programs.

Mr. Chairman, these are our comments and our suggestions at this time. Again, we are appreciative of the opportunity you've given us this morning.

Senator SCHMITT. Well, thank you, Mr. Matthews. That's most helpful and we will continue to work with you.

Let's hear from Mr. Echols, now, if we may.

STATEMENT OF MICHAEL J. ECHOLS, EXECUTIVE DIRECTOR, SOUTH DAKOTA HOUSING DEVELOPMENT AUTHORITY

[Complete statement follows:]

STATEMENT OF MICHAEL J. ECHOLS, EXECUTIVE DIRECTOR, SOUTH DAKOTA HOUSING DEVELOPMENT AUTHORITY

Mr. Chairman and members of the committee, thank you for the opportunity to testify today. My name is Mike Echols and I am Executive Director of the South Dakota Housing Development Authority. I also serve as chairman of the Rural Housing Committee of the Council of State Housing Agencies. The Council of State Housing Agencies represents the 52 State-authorized housing finance agencies in 46 States, the city of New York, Washington, D.C., and the Commonwealth of Puerto Rico. Included in our membership are participants in the state housing finance industry including investment bankers, builders, developers, and non-profit organizations.

My testimony today will overview the current condition of rural housing and the availability of rural housing credit. I will briefly describe the present involvement of State HFA's in the delivery of housing services to rural areas. I will comment on the administration's proposed rural housing budget and provide some general statements about the potential benefits of a Federal rural housing block grant program.

First, I would like to comment on the present state of housing in rural areas.

RURAL HOUSING NEEDS

The housing needs in rural areas are substantial and well-documented. Rural households face major problems in housing quality, affordability, and availability. According to the annual housing survey, rural areas have a significantly higher percentage of substandard housing units than the nation as a whole (12.4 percent to 9.7 percent). The specific defects found in rural housing tend to be more severe and expensive to rectify than for non-rural housing which is substandard (e.g., plumbing and sewage vs. maintenance).[1]

A 1978 HUD rural housing task force found that while rural rental units constitute only 26 percent of occupied rural units, they account for 55 percent of the deficient, overcrowded and "excessive cost" rural housing.

The task force projected that demand for federally assisted housing in rural areas will be 240,000 units per year through 1985.[2] With multifamily production in 1982 totalling 288,000 units nation-wide, both assisted and unassisted, it becomes clear that a substantial portion of the need for rural units is going unmet.

Many rural subgroups face even greater housing problems than the rural population as a whole. A recent study of farmworker housing found that the present stock of seasonal housing for migrant farmworkers is generally substandard and in very short supply. The report stated that there is an immediate need for 800,000 additional units of farmworker housing.[3]

While blacks occupy only 6.5 percent of rural housing units, their housing accounts for 33.6 percent of all rural units lacking adequate plumbing. The median income for rural blacks is less than one-half the national median.

The rural elderly also face considerable housing problems. Over 12 percent live in physically deficient housing and nearly half do not have access to decent housing

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[1] Anthony Yezer, "How Well Are We Housed: Rural" (Office of Policy Development and Research, HUD, Washington, D.C., November 1979).

[2] Joseph Burstein and A. Russell Marare, "Report of the Task Force on Rural and Non-Metropolitan Areas" (Policy Development Division, HUD, Washington, D.C., July 1978).

[3] InterAmerica Research Associates, Inc., "National Farmworker Housing Study" (USDA, Washington, D.C., December 1980).

costing less than 25 percent of their income. For rural residents who are disabled, the housing deficiency rate is 15 percent. Housing assistance often is not available to rural residents because their communities lack the network of housing services and programs found in most urban areas.[4]

In sum, the housing problems faced by rural families and individuals justify a strong continuing role for the Federal Government in rural housing assistance. Let me now turn to the issue of rural housing credit.

RURAL HOUSING CREDIT

There are a number of significant differences between mortgage credit extended to urban areas and rural mortgage credit. Recent studies of rural housing credit have found that:

FHA and VA financing is much less likely to be used in rural areas than non-rural areas.

The term of rural mortgage loans, on average, is shorter than for non-rural areas.

Rural loan amounts tend to be lower and downpayment requirements are higher than for non-rural areas.

Rural lenders are far less likely to sell their mortgages in the secondary mortgage market.[5]

The credit availability problems faced by individuals wishing to buy a home, finance home improvements or develop rental housing are severe. In the past, the Farmers Home Administration has provided an alternative source of affordable housing credit for rural areas. Working through local lenders, HFA's across the country also have played an important role in providing rural credit with more liberal terms and lower interest rates than would be provided by these lenders. In this way, the experience and capability of the private market to extend rural housing credit has been enhanced by HFA programs.

I will now briefly describe some of the accomplishments of State HFA's in the delivery of housing credit and innovative programs to rural areas.

STATE HFA RURAL HOUSING INVOLVEMENT

The council of state housing agencies recently surveyed HFA's across the country to assess the present involvement of these agencies in the delivery of housing services to rural areas. Responses to the survey indicated that, from Maine to Hawaii, HFA's are committed to serving the rural housing needs in their respective States. To date, the portion of HFA housing capital flowing to rural areas has been roughly proportionate to the portion of the state which is rural. HFA's in the most rural States have developed an impressive array of specialized programs to meet rural housing needs.

The programs that HFA's have developed to serve rural areas include:

Construction financing for FMHA 515 projects.

Small project section 8 for rural areas.

Administration of section 8 existing programs in rural areas.

Solar/earth sheltered housing demonstrations.

Below market financing for manufactured housing.

Home improvement, energy conservation and rehabilitation loans for rural areas.

Long-term, low downpayment, below market interest rate homeownership loans for rural areas.

Through these programs, as well as others, State HFA's have played a key role in the delivery of housing services to rural areas. A 1977 HUD/USDA demonstration program involving HFA's in California, Colorado, Illinios, and West Virginia demonstrated that State agencies are effective vehicles for planning, developing and implementing a delivery system to meet the housing and community development needs of inadequately served rural areas and households. In addition to set-asides of HUD section 8, grants from HUD and FMHA were allocated to each of the participating States. The grant funding to each of the States allowed for flexibility in the development of unique delivery systems tailored to State needs.

All States responding to the CSHA survey indicated that they would have the capability to efficiently administer a rural housing block grant program. Through the use of housing bonds, HFA's will be able to leverage block grant dollars to maximize the benefits of the program. Having financed 30 percent of section 8 projects, State

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[4] "Housing Needs of the Rural Elderly and Handicapped" (Policy Development Division, HUD, Washington, D.C., July 1980).

[5] Copley International Corporation, "Urban and Rural Credit Market Differentials" (Policy Development and Research, HUD, Washington, D.C., January 1979).

HFA's are experienced with the delivery of large-scale Federal programs. HFA's have the capability to assess statewide housing needs and target program services where they are most needed.

The continued ability of State HFA's to effectively serve the housing needs in their respective States is critically linked to the condition of workable housing bond programs. Congress must provide some relief from the arbitrary and unworkable restrictions of the Mortgage Subsidy Bond Tax Act. It also is imperative that Congress extend or completely eliminate the December 1983 sunset for mortgage revenue bonds. The Congress presently is considering a proposal by the administration to restrict the use of industrial development bonds (IDB's). This proposal, which applies to rental housing bonds, will effectively eliminate tax-exempt bonds as a source of capital for low and moderate cost rental housing. In the face of substantial Federal cuts to assisted housing, it is critical that Congress reject this proposal as it applies to rental housing.

I would now like to comment on the proposed rural housing block grant program.

RURAL HOUSING BLOCK GRANT

Although the Council of State Housing Agencies supports changes to the rural housing delivery system that will improve the efficiency and flexibility of Federal housing assistance, CSHA opposes program funding cuts below 1982 levels. The housing conditions in rural areas merit substantial increases in Federal assistance, not cuts. The administration proposes a reduction in FMHA rural housing programs of nearly 70 percent from 1982 levels. Whether the funding level included in the administration proposal is folded into a rural housing block grant or used in existing categorical programs, the result will place a severe and unwarranted burden on rural areas.

With adequate funding, a rural housing block grant will provide States with the capability to offer a range of housing services to meet the specific rural housing needs in their respective States. Attached to my testimony is a more detailed statement by CSHA on the block grant approach to housing assistance. The remainder of my remarks will address some specific concerns and recommendations regarding the design and implementation of a rural housing block grant.

The block grant proposal which was provided by the subcommittee staff is fairly general in nature so I will keep my remarks on the same level. However, let me say, for the Council of State Housing Agencies, that we will be happy to work with your subcommittee in the further development of this legislation.

CSHA supports the provision that the block grant funds only be spent in towns with a population of 10,000 or less. This restriction will target assistance in rural areas with the greatest housing credit needs.

To facilitate the construction and rehabilitation of rental housing in rural areas, it is very important that mixed income projects be applicable under the block grant program. Absent long-term rental assistance contracts, a 100 percent low-income requirement for multifamily projects will require an inordinant amount of upfront assistance. Mixed income projects allow block grant funds to be leveraged with bond proceeds.

To ensure that low income rural housing continues to be develop under a block grant program, CSHA recommends that a portion of housing vouchers be set aside for rural areas. These vouchers could be tied to new or reabilitated units to ensure the feasibility of these units for low income housing.

The block grant proposal indicates that the HUD minimum property standards will be a maximum standard of housing quality for eligibility under the block grant. Although CSHA supports the concept of cost containment, this provision may turn out to be a regulatory nightmare.

CSHA strongly supports a 3-year authorization for the rural block grant. Without the assurance of continuing assistance, few States will be willing to devote their own administrative and financial resources to complement a program of this kind.

CSHA also supports the requirement that States submit a plan for use of block grant funds. The block grant program will be an incentive for States to assess their rural housing needs and to develop programs that will most efficiently meet those needs.

Under the category of eligible activities, I am concerned that restricting rehabilitation programs to housing which does not meet health and safety codes will be problematic not only due to the wide variation in these codes across the country but because energy conservation and other much needed home improvement services will be precluded.

An activity which should not be included under the block grant is necessary funding for FMHA rural rental assistance to projects built prior to the implementation of the block grant program. The Federal Government must continue to honor its commitment to provide rental assistance for these projects.

CSHA supports the applicability of rural block grant funds to the purchase of modest ownership housing, the construction of rental housing and the provision of rental assistance. Combined with below market interest rate capital raised from the sale of tax exempt bonds, block grant funds could be used to write down interest rates on home loans and underwrite rental rehabilitation and development costs.

The suggested formula for the allocation of block grant funds should be carefully analyzed to ensure that no section of the country receives a disproportionate share of the funding because of factors unrelated to rural housing need. Moreover, a minimum State grant amount should be designated to ensure sufficient funding for a workable program.

CSHA suggests that any State contribution requirement be calculated on a 3-year average. In this way, at State's inability to raise matching funds in a given year will not jeopardize continued block grant funding. Alternately, where a State makes a significant contribution during the initial year of the program, a portion of this contribution should be applicable as a match for gants in later years. The determination of the matching amount should account for long-term commitment of funds rather than direct expenditures in any given year. An appropriate model for eligible State matching activities could be the present small cities CDBG program.

CSHA supports the optional nature of the program allowing the program to be phased in prevents States that are not prepared to assume rural housing assistance responsibilities from losing several years of production as they gear up their program.

In summary, the rural block grant program has considerable merit as a housing delivery system given the great housing needs in rural areas; however, it is imperative that funding not be cut below 1982 levels. State HFA's have demonstrated the commitment and capability to deliver housing services to rural areas. Under a housing block grant program state HFA's would continue this commitment.

Senator SCHMITT. Thank you, Mr. Echols. That's very helpful testimony. I'll have a few questions in a moment.

Now, Mr. Wilson.

STATEMENT OF HAL WILSON, EXECUTIVE DIRECTOR, HOUSING ASSISTANCE COUNCIL

Mr. WILSON. Mr. Chairman, let me thank you very much for the opportunity to appear before the Rural Housing Subcommittee to discuss the proposal for amending the title V of the Housing Act and the reauthorization of the FHA housing programs.

There is a great deal of interest in the rural community on the proposal that is being set forth and as a result there are many others who would like to have had the opportunity to testify and present their views if time had permitted. As a result, I'd like to let you know and the committee know that our remarks carry the endorsement of the National Rural Housing Coalition and its member organizations.

We have submitted a written statement and, as you have indicated, I respectfully request that that statement be included in the record of the proceedings and if I could I'd like to summarize the statement and indicate some of the more pertinent points that we have made.

[Complete presentation follows:]

TESTIMONY OF

HAROLD O. WILSON, EXECUTIVE DIRECTOR

HOUSING ASSISTANCE COUNCIL

Mr. Chairman, my name is Harold O. Wilson and I am the Executive Director of the Housing Assistance Council. The Housing Assistance Council is a national nonprofit housing technical assistance organization which seeks to assist in the provision of housing for low income rural families by providing technical assistance and seed money loan funds to rural development organizations. The Council has been in operation for over ten years, and never have we seen such sweeping changes that will impact adversely on the poor as we see at the current time. In our testimony, we will review some of these changes and attempt to assess their impact on the rural poor and the rural housing delivery network.

The proposals we face are reflective of a broad theme that is now familiar to all of us: simply stated, the Federal government is getting out of the housing assistance business. The HUD budget for FY'83 testifies to this attitude with the proposed elimination of the FY'82 pipeline and virtual elimination of all the assisted housing for FY'83 except for a minimal number of vouchers and a small rehab block grant program. In addition, if we can believe the message of the FY'83 budget document entitled Major Themes and Additional Budget Details and the recommendations of the Rural Task Force of the President's Commission on Housing, we are facing the virtual elimination of the Farmers Home Administration (FmHA) housing programs. A proposal being

considered by this committee would implement a number of the recommendations of the President's Commission and effectively dismantle FmHA.

Our testimony is in three parts plus appendices. The first part concerns our views on the proposed legislation that has been developed by some staff members to this committee that proposes an abrupt change in the manner in which rural housing services are delivered. Second, we will examine the budget message as reflected in both the budget itself and the aforementioned budget "Themes" document. Throughout the first two parts of our testimony there will be reference to the rural proposals of the President's Commission on Housing. They are similar to proposed Senate legislation and central to the issues facing rural housing today. HAC's full response to the President's Commission report is Appendix B to this testimony. The final part of this testimony contains our recommendations with regard to the present FmHA housing programs and their levels for reauthorization.

The two basic components to the proposed legislation are: (1) block grant the FmHA subsidy funds, at fiscal 1983 budget levels, to the states on an annual basis; and (2) retain a direct and insured (guaranteed) housing loan program at FmHA on a market rate basis. Since most of the FmHA eligible population cannot afford today's market interest rates, this is essentially the death knell for their rural housing programs. We are opposed to

the proposed legislation and outline a number of practical reasons for our position below.

The proposed bill is realistic only if there is reason to believe that all states are interested in and committed to serving the rural low income populace, and that there is adequate assurance that block grant funds will be available over the long term to support low-income housing activities undertaken in the first years of block grant administration. Unfortunately neither assumption is born out by available information.

First, with few exceptions, state housing finance agencies (HFAs) historically have generally preferred to direct their loan program activity to fairly large communities offering economies of scale and presenting few credit risks. Since the passage of the Mortgage Tax Subsidy Bond Act of 1980, they have been required to target 20% of their tax-exempt single family loans to distressed areas, and 20% of their multi-family projects to low-income people. Since the Act also imposed discouraging restrictins on arbitrage, their ability to carry out this mandate has not been fairly tested, on the other hand, a number have not chosen to set aside any funds for targeted areas or have set aside substantially less than 20%. Among these are states which have no qualifiying census tracts, do not apply to have areas of Chronic Economic Distress designated, or whose qualifying areas are sparsely populated and have not had much mortgage activity in

the past. Unfortunately, those may be the rural areas most in need of mortgage credit.

Moreover, state HFA personnel have already indicated that they will not tolerate credit risk, and would foreclose on FmHA's outstanding loans. FmHA could stand some improvement in the area of counselling people who have never had resources to manage, and in its ability to use its moratorium program to assist borrowers delinquent for causes beyond their control, but its assumption of what HFAs and private lenders consider to be credit risks is what makes it a genuine lender of last resort.

States vary widely in their ability to administer housing delivery programs. Many are in deep financial trouble and are reducing the number of employees. They would be in no position to take on the new block grant programs, particularly if budget levels are lowered as proposed by the Administration. Many states are currently wrestling with the problem of how they can adminster those Federal programs already targeted for transfer to them. Two varying examples come to mind. (1) Officials of the state of Washington Housing Division have indicated they do not have the resources to take on a rural housing block grant program, (2) the state legislature in New Mexico has reported a negative position on receiving the Small Cities Block Grant program.

Second, the current administration has made clear that the consolidation of categorical programs into block grants is the

first stage in phasing out federal funds for domestic program activities, a process which it hopes to complete within the next few years.

Other pertinant issues that must be raised with regard to the proposed legislation include:

- The Small Cities Block Grant Program is now in operation with approximately one-half of the states participating, comprising a major demonstration of what is now being proposed for FmHA. The results of the Small Cities demonstrations should certainly be assessed before destroying the FmHA programs and replacing them with Block Grants.
- The proposal ignores housing delivery for low-income households, while establishing a subsidy system that will vary according to the ability, financial status, and commitment of the states. We included information to provide some evidence on the disparity entailed by such commitments in the Commission response. One can visualize a migration from those states with little regard for their "problem" population to those states which seriously attempt to meet obligations--and the overload of humanity will engulf them as it did several conscientious cities during the '50s and '60s.
- What actual delivery mechanism will replace the 1960 county and 300 district offices of FmHA? The states will

need a means for delivery of housing credit and subsidy in the very rural areas. 520 rural counties have neither a Savings and Loan nor a Savings and Loan branch. Rural banks are preoccupied with other types of credit. Many of them face major difficulties if the farm situation doesn't improve. A large number of farmers are going under where falling land values have left banks with mortgages that are far greater than the selling price. Few rural lending institutions have shown much inclination to provide mortgage services to those who comprise the FmHA low-income eligible population.

- More pointedly, there is no indication communities of 2500 population or less, particularly those most remote from urban centers will be served.
- The bill would not serve many of FmHA's current clientele, the proposed definition of rural areas excludes previously served communities of less than 10,000 population that are in SMSA's. Some very rural counties are in an SMSA because they abut a metro center. No one will serve them in the absence of FmHA. Additionally, there is no provision for service to those non-metro areas with populations between 10,000 and 20,000.
- A Congressional Research Service paper on the block grant approach notes on annual funding that it is difficult to interest developers in new construction or substantial

rehabilitation without long-term project funding. It also finds that greater control and flexibility at the local level could lead to assistance for those who need it less, such as mortgage revenue bonds for middle-income homeowners. Note: While FmHA has put a low-income cap at $18,000, 80 percent of median income far exceeds that level in a sizable number of districts. Normally unpopular assistance to low-income families is most likely to be hindered.

- A draft HUD Housing Assistance Block Grant Report to Congress described four basic program options and noted that none of them would enable communties of under 100,000 - 200,000 population to produce new housing.
- Dependence on tax-exempt bonding to provide mortgage financing for low-income rural families will not lower costs to the public, nor will it relieve the pressure of government competition in the credit market. Obviously, transference of credit functions from program appropriations to tax breaks will not change the borrowing level.
- FmHA has moved to renew rental assistance contracts in its existing projects. This both protects the government's investment and helps low-income families, elderly and farmworkers. There is no guarantee that state operated programs will protect tenants in FmHA financed housing

whose rental assistance contracts expire and, should they want to do so, there is no provision for funding to be reserved for this purpose. (HAC estimates that a minimum of $158 million of the FY 1983 Rental Assistance budget request is for contract renewals.)

- The proposed legislation would separate subsidy from financing mechanisms, giving the states the subsidy to manage and reserving to the federal FmHA the insuring and direct loan service. The states would have to develop their own apparatus for delivery of subsidy resources, in effect increasing the organization infrastructure (offices, personnel, etc.) by, in the estimate of one HFA staffer, 60% to 100%.
- Recombining the subsidy with financing, which is essential for lower-income beneficiaries, will require cumbersome administrative requirements, added administrative costs and much frustration for the consuming public. The Section 8 program is a good example of how applicants and project developers were forced to hurdle obstacles to combine mortgage financing with subsidy. The FmHA subsidy legislation was designed specifically to go with FmHA mortgage financing.
- FmHA had an inventory of 8,485 Section 502 units as of December 31, 1981. They are almost impossible to market without interest credit. Without subsidy FmHA will not be

able to dispose of this inventory - or of units that will subsequently be added to inventory.

- The non-subsidized FmHA housing program is unrealistic. Under the best of circumstances, it will serve a much higher income clientele. With present interest rates, it will work about as well as the 1979-1981 FmHA Guaranteed local rate program which utilized only 3.6% of the $1,025,000,000 available during that three year period, because of the lack of a private credit system. In sharp contrast, the performance of the direct (at a rate produced by treasury borrowing) and subsidized lending program was one of nearly full use of available funds. The proposed unsubsidized FmHA program will convert that agency from a lender of last resort to a competitor for mortgages to middle income people.
- The proposed legislation provides for construction of homes which are "modest," defined as not exceeding HUD's Minimum Property Standards. HUD's MPS are simply that, minimum standards which every developer, including those who emphasize "low-cost" housing, use as a base from which to design housing adapted to local terrain and culture. No state HFA will finance housing which cannot exceed the MPS in some respect; and in regions and states with their own codes--all of which exceed MPS, they would be prohibited from doing so.

- Borrowing at market rates for the FmHA mortgage program would result in greater cost to the government. It makes no sense to pay one to four points more than the rate obtainable through collective borrowing using the full faith and credit of the U.S. Treasury.
- Secondary market considerations for a rural, guaranteed program are valid only if very small portfolios can be sold. Rural mortgage volume is widely dispersed and not conducive to secondary markets as we now know them.
- There is no economy in ignoring an in-place system (FmHA) that normally delivers all or most of what Congress authorizes for farming, community programs, and business and industry in addition to housing. Dismantling a known effective program for an untested concept will prove costlier and less productive.

There appear to be several misconceptions that motivate an interest in transfering FmHA's housing subsidy to the states. We would like to address a few, some of which are also outlined in the summary of the proposed Bill:

(1) "FmHA competes with private credit, through its use of subisdy": FmHA serves an income group as mandated by Congress, and does so only to those unable to obtain credit elsewhere. Present interest rates have produced

a condition wherein virtually no one can afford private financing. This is atypical, hardly the fault of FmHA, and we assume that interest rates will gradually fall to an affordable level.

(2) "Congress can't monitor FmHA. They can't produce information on rental units": First, we question how much better data Congress might glean from 50 separate states. Second, and more important, FmHA is developing a separate computer tracking and retrieval system for its multi-family housing programs. When all phases are in place, the public will have available indepth information on the rental programs. We do believe that Congress must continue to exercise its oversight authority, and require specific performance of FmHA.

(3) "FmHA persists in off-budget financing of its housing programs": Misunderstandings abound in this area. HAC supports the provision of a separate credit budget, from which net figures can be transferred to the unified budget. In listening to both sides of the issue, we perceive a need for a compromise approach. HAC is preparing comments on a January report by the Congressional Budget Office, and will submit a copy of these comments, when completed, to the committee.

(4) "FmHA will not finance Manufactured Homes": FmHA has resisted financing the so-called mobile type manufactured homes, although it has been financing sectional and modular manufactured homes for a good number of years. Mobile home legislation was enacted into law in 1974, and Congress should enforce implementation by requiring inssuance of regulations by a given date.

(5) "FmHA, by virtue of its use of the Federal Financing Bank, exceeds program levels set by appropriations": This widespread accusation is not true. FmHA obligates funds within authorization or appropriation levels established by annual appropriations legislation.

(6) "Federal programs are not close enough to the people and therefore inhibit response to local needs": FmHA has 1960 county and 300 District offices with staff who are generally residents of the communities where they work. FmHA has 52 county offices in Illinois, 29 in Maine, 42 in South Dakota, and 31 in West Virginia. We question if the states can provide this kind of access.

(7) "FmHA is unable to get a grip on delinquency in its programs": This administration has recently reduced rural housing delinquency from over 30 percent to 19 percent. FmHA borrowers are situated toward the bottom of the economic ladder. They have limited income and

little reserve to cushion against adversity, such as recession oriented unemployment. Congress mandated that FmHA serve those no one else could or would, and should expect greater delinquency than that insured by private lenders. Losses are minimal and reflect a better portfolio management than is being attributed to the agency. (See Appendix C)

References to delinquency in the 502 program are misleading. The payment problems are real, but overstated and the solutions have been mired in interferences from myriad adminstrative and Congressional agencies and committees. Computer problems, lack of escrow, and lack of counseling resources are just a few of the unnecessary but contributing factors.

The second part of our comments concerns the FY 1983 budget which we fear is a pre-budget and forerunner of a zero level rural housing request for FY 1984. Its Major Themes document states that the Administration intends to reduce dependence on the Federal Government as a supplier of credit; that rural areas are adequately served by private credit markets; and that the Farmers Home Administration shall not be viewed as a major lender for rural housing. It indicates that truly needy households will be the primary beneficiaries of the rural housing programs. The

Office of Management and Budget (OMB), not unlike the President's Commission on Housing, essentially proposes the dismantling of FmHA's housing programs, if not the agency. The OMB plan is different in that it will take longer than one year to complete.

There is an inherent contradiction in the way OMB claims of intention to serve the most needy accompany proposals to eliminate the few programs that have served them in the past. FmHA is requesting no rental assistance units for new projects in fiscal year 1983, thus preventing the poor from becoming tenants in units provided during that year. The effects are aggravated by the loss of HUD's Section 8 new construction with its rural set-aside of units.

Moreover, FmHA has already removed weighted priorities from the Section 502 regulations. Those priorities would provide assurance of a first chance at approval for families with incomes at or below 50 percent of area median income, and/or for those living in substandard housing. We remind you that Section 517(0)(2), a Senate bill enacted in 1979, requires that "to the extent practicable," 30 percent of FmHA program funds serve those at or below 50 percent of area median income.

The Housing Assistance Council agrees with the Chairman that FmHA must target its programs to serve those most in need. We believe this can best occur through amendments to Title V which will require priorities to those at or below 50 percent of area median income or living in substandard housing. Appendix E is a

sample of such legislation as recommended by the National Rural Housing Coalition. Appendix D to this testimony provides an analysis of the agency's 517(0)(2) record for fiscal 1981 and the first quarter of 1982. Only 13.9 percent of the 502 loans were made to very low income families in 1981 and this dropped to 10.6 percent in 1982. However we firmly believe that application priorities will turn this record around, at least to the extent possible through the appropriation of subsidies.

HAC supports the provision in HR 5731 which maintains the current level of rental assistance, and requires that $173 million of the authorization be for new projects, as one means of focusing on the truly needy. Additionally we urge that the Committee specify the use of 5 year contracts, as outlined in the Administration budget, so that approximately 16,600 new rural rental and farm labor housing units can be assisted.

A second OMB theme suggests that rural areas generally are adequately served by private credit markets. The Housing Assistance Council challenges this assumption by OMB and the President's Commission. Credit gaps in rural areas dictate continuing the FmHA direct delivery system. As previously stated there are gaps in savings and loan service and most rural banks have different agendas. HUD-FHA insured lending in rural areas accounts for less than 2% of its overall activity. A few State Housing Finance Agencies do have the ability to deliver adequate rural credit, but generally they serve suburban areas best. The

FmHA delivery network is the only system which reaches low- and moderate income households in rural areas. Regardless of a decrease in market interest rates, rural low-income households will continue to need FmHA's loan programs in order to afford decent housing.

Even if private credit institutions were adequately serving rural areas, a supposition contradicted by sagging rural building starts and sluggish real estate sales, most families within the FmHA eligible income populations could not afford to borrow from them, even at the level of interest prevailing a decade ago. In fact, throughout the history of FmHA, credit institutions have never adequately served individual mortgage needs in rural areas.

The average 1981 FmHA Section 502 borrower had a gross income of $10,638, and 38.5 percent of those borrowers had incomes below $10,000. Their downpayment averaged $660 and 16,418 borrowers made no downpayment at all. Surely OMB does not expect the Congress to believe that the private credit market can and will serve these families. OMB need only ask the nearest banker. We do not want FmHA to compete with private credit, but it should remain the lender of last resort. Without FmHA, rural low-income homeownership will not be possible except perhaps through demonstration projects.

FmHA has assembled living cost data which points out the financial difficulties faced by families seeking housing whose incomes are $10,000 or below. For the family with an adjusted

income of $10,000 (and gross of $11,574), food, transportation, non-real estate taxes and other costs total $8,978. This leaves a balance of $2,596 for all shelter costs. Even with a one percent mortgage such a family must trim $709 from this budget to afford the average new 502 dwelling, at 1981 costs.

Affordability must be of paramount consideration when assessing parameters for the rural housing programs. The average FmHA borrower has an income which limits flexibility in housing choice and payments. With this in mind we recommend that the Committee not accede to Administration requests that low-income tenants pay 30 percent of income for rent. At the very least we ask you not to require that those with incomes at or below 50 percent of area median income pay 30 percent.

A third theme in the OMB explanation justifies the proposed and drastic reductions (67% overall), by noting that more staff time will be available for counseling and supervision. There are two issues raised with this concept. First, there is a tendency to cut staff as programs are reduced. Second, and more important, there is an unjustified preoccupation with rural housing delinquency on the part of both the Administration and Congress. As earlier noted, Section 502 delinquency has dropped signficantly to 19%.

Delinquency is a manifestation of severe rural economic conditions. FmHA borrowers are low on the economic ladder. They have little or no reserves and are in the forefront of those

likely to be furloughed from employment. FmHA has used delinquency reduction to withhold Section 502 funds and deny access to pooling from 19 states, Puerto Rico, and the U.S. Virgin Islands. In some states offices with fairly high delinquency are not authorized to approve loans. Such edicts are made without regard to levels of unemployment, or the living conditions of eligible applicants. In fact, delinquency, and the loan servicing campaign has provided the Administration with a perfect foil with which to hold down loan making (spending). Only 22.4 percent of authorized funds have been obligated after expiration of 50 percent of the fiscal year. At this rate of obligation, less than half of the appropriated funds will be used.

Delinquency percentages should not be disregarded and we agree that servicing is very important. Given our apparent compatibility with OMB on this issue, we fail to understand why there is no request for Section 525 counseling funds. Appendix C is a description of rural housing accounts and their status. The write-off category is most important. Since FmHA inception through September 30, 1982 only 0.14 percent of principal has been written off. Moreover, even if all its current inventory were to be lost, it would amount to less than 1% of all FmHA's outstanding principal.

The Housing Commission goes further than OMB and recommends that FmHA should contract out its lending and debt servicing. The idea that FmHA could contract loan making and servicing to

save federal dollars is not borne out by experience. Several years ago, FmHA attempted contacting of servicing on a pilot three state basis and abandoned it because of extremely high costs.

The third part of our testimony involves recommendations for FmHA authorizations and suggests they remain essentially at the FY 1982 levels (with the exception of Sec. 523, see below). They provide for continuation of the programs while Congress can perform indepth assessments on the extent of the Federal role in housing. We firmly believe that both a strong Federal role and maintenance of the FmHA delivery system are necessary for poor people and for the well being of rural America. Our recommendations, in table form, appear in Appendix A.

The most important FmHA housing program is rental assistance. The use of rental assistance permits the agency to serve the elderly, lower income families, and farmworkers through the Section 515 Rental Program and the Section 514/516 Farm Labor Housing Program. Without it, the Section 515 program may fill a need, but not that of the truly needy. We doubt the feasibility of Section 515 loans, without rental assistance in northern and higher cost states. The Administration essentially proposes only enough rental assistance for renewal of expiring contracts. It signals the end of the use of FmHA rental programs for the very low income. We urge you to support the level in recommended by the National Rural Housing Coalition or that in H.R. 5731.

No group of American workers continually earn less than farm laborers. While excessive unemployment has proved devastating to far too many American families, farmworkers face economic and social privation on a day to day, year to year basis. The FmHA Farm Labor Housing program is no substitute for improved income. It has also been no resounding success in terms of total housing units produced. The FY 1983 production (1090 in the Administration budget, 1303 in the National Rural Housing Coalition alternative proposal) is meager in the face of the 756,196 farm labor housing units needed that do not now exist, but is still important. FmHA will soon publish final seasonal housing standards for the program. These together with the availability of rental assistance, will improve its ability to serve migrant workers. We urge you to continue supporting the program in spite of past low level of commitment to full use.

The Housing Assistance Council deplores attempts to end the FmHA Self-Help Housing Program, and applauds support for it in the House bill. Self-Help Housing provides three important services to rural America. First it reduces income affordability for the Section 502 program. Second, it does so at approximately $9,200 less per unit than average newly constructed units in the same areas. Third, it requires less interest credit than regular 502 loans. The cost of Section 523 Technical Assistance Grants per unit is offset by the reduction in interest credit subsidy in approximately 5 years.

The obvious, and most American, benefit of the Self-Help program is people working hard to help themselves. The FmHA program is a true self-help concept where family labor does materially reduce the cost of housing. It is difficult for us to understand how such a program is not in the public interest.

The 1983 budget proposal would reduce the Section 502 level from $2.743 billion to $900 million. We cannot argue that this program will serve the lower income levels made possible by combining Section 515 or 514/516 with rental assistance, or through the Section 504 very low-income loan and grant program. However, 13.9 percent of the FY 1981 502 loans did serve very low income families and with previously suggested targeting legislation FmHA could markedly improve on that record.

A more necessary consideration for the coming fiscal year is the importance of the 502 program to rural builders. The present lack of housing activity is directly due to interest rates. To cut almost 55,200 units at a time when rural home builders are suffering severely seems incomprehensible. The agenda of the Housing Assistance Council and the homebuilders may vary on some issues, but we vigorously support the necessity of a healthy building industry.

As the Committee is well aware, "subsidy" is an unpopular word in Washington today as long as it is used to refer to benefits for the poor. When they are for others however, subsidies are called incentives and appear to be quite

acceptable. We would like to suggest then that what the poor need, if they are going to live in decent affordable housing, are "incentives"; in fact they need deep incentives or some form of assistance that will allow them to pay the difference between what decent housing costs and what they are able to afford out of their own incomes.

In this fast changing world there are precious few things worth preserving but we would like to suggest a few to you: The first thing worth preserving is the principle that there is nothing wrong with helping the poor. There is nothing wrong with people acting in a collective body called the Federal government to provide assistance to those who are unable to provide for themselves.

A structure that provides decent affordable housing is also worth preserving and worth paying for. These programs and assistance have been forged by the wisdom of the Congress over a thirty year period and it is unconscionable to try to do away with them in a few months without providing any suitable alternatives. Finally, if the rural poor are going to receive the assistance that they need, then it is vitally necessary that a housing delivery mechanism be preserved that will deliver housing services to the remote rural areas of our country. The present rural delivery network has been in the process of development for over 20 years now and it would be a tragedy to see that already crippled delivery system eliminated at this time.

We believe no program is any better than FmHA's, and its complete delivery system, already in place, is the only viable credit delivery system for remote areas. The Administration proposes to continue the farm programs which also rely on the county/district office network; it would be an obvious waste to not make use of the system for those other credit needs which will not be met by the private sector.

FmHA RURAL HOUSING PROGRAMS

Dollar Levels Fiscal Years 1979-1983

(Dollars in Millions)

	1979 Actual	1980 Actual	1981 Actual	1982 Estimated	1983 Budget	1983 HAC Proposal
502 RH Subsidized	$2,007	$2,220	$2,328	$2,300	$ 900	$2,300
502 RH Unsubsidized	859	604	256	430	0	400
502 RH Guaranteed	11.9	18.9	5.7	0	0	0
504 Low Income Repair Loans	14.7	21.9	17.9	24	24	24
504 Low Income Repair Grants	19	24	22.7	15	12.5	24
514 Farm Labor Housing Loans	36.3	24.6	18.5	25.6	19	25
516 Farm Labor Housing Grants (a)	32.4	22.3	10.5	22	23.2	25
515 Rural Rental Subsidized	822	825	842.5	940	200	940
515 Rural Rental Unsubsidized	48	56	22.3	0	0	0
523 Self-Help T.A. Grants	5.6	6.2	12.4	5.2	0	20
523 Self-Help Land Loans	1.7	0.4	0.5	2	0	2
524 Site Loans	3	0.8	0.5	5	2	5
525 T.S.A. Grants	2.5	1.5	1	0	0	5
Rental Assistance Contracts	423	393	403	398	185	400
TOTAL	$4,286.1	$4,218.6	$3,941.5	$4,166.8	$1,365.7	$4,170

(a) Reflects deferral of $10,728 million in FY'82 to FY'83

FmHA RURAL HOUSING UNIT ESTIMATES

FY 1979-1983

	1979	1980	1981	1982	BUDGET 1983	HAC Proposal 1983
502 RH Subsidized	64,264	62,739	61,544	55,800	20,100	61,133
502 RH Unsubsidized	29,136	18,918	7,990	11,700	0	14,233
502 RH Guaranteed	374	590	172	0	0	0
504 Low Income Repair Loans	5,213	6,934	5,296	6,440	5,900	6,351
504 Low Income Repair Grants	6,942	8,589	7,687	5,651	3,515	6,479
514/516 Farm Labor Housing(a)	2,575	1,490	890	1,340	1,090	1,303
515 Rural Rental Housing	38,650	33,100	29,500	29,400	5,740	27,434
TOTAL	147,054	132,360	113,079	110,331	36,345	116,933
RENTAL ASSISTANCE UNITS(b)	22,623	20,000	17,655	14,280	17,560	37,960

NOTE: 502 loans and 504 loans and grants are counted as units. 514/516 and 514 units are based on FmHA data, and calculations from budget estimates and actual expenditures.

(a) Reflects deferral of $10,728 million dollars in FY 1982 to FY 1983

(b) Administration proposes all 1983 budgets for renewals and units in existing projects, HAC's proposal includes 16,610 units for new projects (priority for FLH with 1000 units)

APPENDIX B

A RESPONSE TO THE RECOMMENDATIONS FOR RURAL HOUSING NEEDS OF THE PRESIDENT'S COMMISSION ON HOUSING

BY

THE HOUSING ASSISTANCE COUNCIL, INC.

APRIL, 1982

The President's Commission on Housing has recommended that HUD and FmHA housing programs be replaced by housing payments and rehab block grants. During a transition period of unspecified length, States would contract with State FmHA offices to administer the rural portion of the state allocation. FmHA credit assistance would continue but without subsidy, at market rate, and through guaranteed rather than direct lending. FmHA would develop a "cadre of private lenders" of credit for all income levels. A major premise of the recommendations is that, ultimately, the combined efforts of states and the private sector will be sufficient to meet rural credit needs.

If adopted by Congress, these recommendations would spell the end to hopes for a fair delivery of housing assistance to low-income rural people. On the assumption that the Commission's recommendations spring from good intentions, it must still be said that they reflect a severe lack of firsthand knowledge of rural areas and appear to stem directly from uninformed preconceptions about rural credit conditions. Certainly they contradict both historical experience and current awareness of the ability of states and the private sector to undertake significant credit activities for low-income households in general and the rural populace in particular.

The Commission's recommendations are addressed individually below. Briefly, HAC's objections are that:

- Private lenders are not interested in the types of housing loans FmHA is mandated to make. Past experience with guaranteed loans reveals that the rural private credit market is just not sufficient to support guarantees or a secondary rural mortgage market.
- States vary widely in their ability to administer housing delivery programs. Many are in deep financial trouble and are laying off and separating employees. They would be in no position to take on the new block grant programs, particularly if budget levels are lowered as proposed by the Administration.
- The all-guaranteed, non-subsidized FmHA housing program is unrealistic. Under the best of circumstances, it will serve a much higher income clientele. With present interest rates, it will work about as well as the 1979-1981 FmHA Guaranteed Program which utilized only 3.6% of the $1,025,000,000 available during that three year period, because of the lack of a private credit system. In sharp contrast, the performance of the direct lending program was one of nearly full use of the program funding level.
- The idea that FmHA should promote the development of a cadre of knowledgeable rural lenders is unrealistic. The law mandates FmHA to supplement, not subsidize, private

credit. In theory, FmHA could train private lenders to be lenders of last resort for the types of loans FmHA makes, but the theory is contingent upon the presence and willingness of private lenders, neither of which are in evidence. Moreover, subsidy should be reserved for needy citizens, not banking institutions.

- The idea that FmHA could contract loan making and servicing to save federal dollars is not borne out by experience. Several years ago, FmHA attempted contracting of servicing on a pilot three state basis and abandoned it because of extremely high costs.
- The secondary market considerations are valid only if very small portfolios can be sold. Rural mortgage volume is widely dispersed and not conducive to secondary markets as we now know them.
- The references to FmHA problems, such as delinquency in the 502 program, are misleading. The payment problems are real, but overstated and the solutions have been mired in interference from myriad administrative and Congressional agencies and committees. Computer problems, lack of escrow, and lack of counselling resources are just a few of the unnecessary but contributing factors.

- Improvement in the programs can better be achieved through legislation for FmHA than by abandoning the programs to the states.
- The Committee provides no indication as to how care will "be taken to ensure rural perspectives and rural development needs are addressed in block grant programs". It would do well to look at the urban-rural balance of present state programs which provide direct housing assistance. The obvious concern is the fate of rural areas in block grant programs where the experienced expertise of state decision-makers is primarily HUD related.
- The proposals ignore housing delivery for low-income households, while establishing a subsidy system that will vary according to the ability, financial status, and commitment of the states. We have included information below to provide some evidence on the disparity entailed by such commitments. One can visualize a migration from those states with little regard for their "problem" population to those states which seriously attempt to meet obligations--and the overload of humanity will engulf them as it did several conscientious cities during the '50s and '60s.
- The proposals ignore housing for the migrant farmworkers who need over 756,196 additional units identified in a study by Inter America Inc., which was legislated by public law 95-557.

BACKGROUND -- RURAL HOUSING NEEDS

We found the information in this part of the Commission's report to be generally accurate. There are differences between urban and rural America in the type and delivery of credit. The fact that rural median income is 20% lower than in metropolitan areas is obviously a contributing factor to the difficulty in providing rural credit. Households with less income have difficulty both in addressing required downpayments and meeting installments at higher interest rates.

The report noted favorable FmHA service to female heads of households, a group which has had considerable difficulty obtaining conventional credit and often has marginal income. It notes that FmHA also has a greater proportion of households paying less than 30 percent of family income on housing. This is hardly a flaw, since FmHA serves a lower-income clientele who has only marginal income after housing costs for other essentials such as food, clothing, transportation, etc.

Inflation and recession have reversed recent gains, and justify the continuing need for a rural federal presence as demonstrated by the information in the following chart:

POVERTY IN NONMETROPOLITAN AREAS AND U.S.*

	1971	1974	1980
Nonmetropolitan Poor (In Millions)	11.6	9.5	11.3
Percent of Population	11.2%	14.2%	15.4%
U.S. Poor (In Millions)	25.6	23.4	29.3
Percent of Population	12.5%	11.2%	13.0%

Nonmetro areas contain 32% of households and 43% of inadequate housing. 41% of nonmetro households with inadequate housing had incomes of less than $7,000, yet that income group was only 25% of the non-metro population.

*SOURCE: FACT BOOK OF U.S. AGRICULTURE

PART I

Commission Recommendations for Subsidy Programs

"To the extent feasible, HUD categorical programs for rehabilitation and new construction of subsidized housing and FmHA interest and rental assistance subsidies should be converted into a combined program of housing payments to poor households and block grants focused on rehabilitation, where feasible, to provide adequate housing for low income households in substandard housing. The Commission is concerned that an appropriate share of housing assistance, based on need, be provided to small communities and rural areas. In order to assure continued delivery of housing assistance in communities of less than 10,000 and rural areas, States are urged, at least for an interim, transition period, to contract with State FmHA offices to administer an appropriate portion of the State allocation in areas presently served by FmHA."

A. The Block Grant Approach

Without long-term budget authority and rental assistance tied in to cover operating expenses, block grants are not conducive to low-income housing production activity. At approximately $40,000 a unit, only the largest block grant recipients (e.g., cities of more than 150,000 in population)

could afford to finance new construction, and even they are likely to dismiss construction possibilities in favor of more immediate, shallow, and broadly applicable moderate rehab and rental assistance benefits for their constituents.

The Commission appears to assume that the housing problems of rural areas can be solved through shallow rental assistance and moderate, relatively inexpensive rehab of the existing stock. Unfortunately, although the situation has improved over the last decade, a disproportionate number of rural residents are living in housing so substandard, or so energy inefficient, as to require very substantial rehab or replacement by new units.

Rural communities would not suffer alone should production subsidies cease, but they would suffer most. The rural implications of the housing block grant approach are clearly indicated in HUD's draft report to Congress on the "Housing Assistance Block Grant." The otherwise thoughtful report acknowledges rural needs, but does not satisfactorily address them, and glosses over some basic equity concerns. It cites the high incidence of nonmetropolitan substandard housing (at least three times that of metropolitan areas) which, coupled with poverty and lack of private mortgage credit, has created a critical need for new units. At the same time, the report emphasizes that a block grant's limitations are prohibitive with regard to promotion of housing production in cities of under 100,000 - 200,000.

This explicit limitation, combined with the proposal that the subsidies of FmHA -- the major federal housing producer in

rural areas--be folded into a block grant, conjures up a dismal picture of a compounded loss for housing delivery in the thousands of rural communities that have the nation's highest incidence of substandard housing and a need for new units.

The report speculates optimistically that a greater equity might result from combining HUD and FmHA and then allocating funds according to "fair shares" for metro, nonmetro urban (with populations between 2500 and 50,000) and nonmetro rural (with under 2500 residents) areas. For those activities which can be undertaken with modest funds, a greater equity could be achieved by a breakdown that assures smaller communities some funding. But, given the housing budget that might realistically be expected, allocation by formula will not permit housing construction in either nonmetro urban or rural nonmetro areas. Unfortunately, whatever equity is thus achieved though a better formula could not be realized in the distribution of new or rehabilitated units.

Rural areas, already afflicted with a shortgage of builders and developers, might well see those few disappear with the loss of construction resources. Due to the prevailing high interest rates, builders and manufacturers in all areas cannot now afford to produce even middle-income housing, and the construction industries are in a decline. Even if interest rates fall significantly (optimistically, within two years), housing builders and manufacturers who now use federal mortgage programs to sustain delivery capacity would be crippled by their elimination.

The National Association of Homebuilders is even now reporting that, due to the recent recession,

> "Thousands of skilled craftsmen now laid off are seeking employment elsewhere. Many will never return, guaranteeing a serious shortage of skilled labor when production rebounds. Building product manufacturers have delayed plans to increase their production capacities and modernize their plants and equipment and will remain reluctant to do so as long as housing rides this production roller coaster. Therefore, builders are bound to confront shortages of certain builder materials and skyrocketing prices when the recovery gets underway."
> (1981 NAHB "Statement of Policy")

It is unlikely that the federal government would continue for long to passively witness a major industrial decline, for revitalization of a resource in ruins is predictably costlier than its conservation.

The end results of the cessation of production activity would be inflation of housing costs, a slump in the production industries from which they might not recover, and a decrease in the already meager supply of adequate housing for low-income people. All of these efforts would be intensified in rural

areas, because of their greater need for new units and their relative lack of resources. As a program to promote local flexibility in decision making, a Housing Assistance Block Grant is inefficient; as a program to promote savings, it will cost more than it will save.

Finally, a block grant for housing assistance would not be an acceptable substitute for FmHA housing programs. Folding FmHA into a block grant would mean the loss of a resource for new housing, substantial rehabilitation, mortgage credit, farm labor housing and community infrastructure. HAC recommends that the block grant proposal be rejected.

B. States and Block Grant Agencies

The several states lack uniformity of purpose and of technical and financial capacity. Since block grant programs will provide considerable discretion to the states we can assume that the programs will vary from virtually no housing for the rural poor to at least a committed effort. The disparity in the states' commitment to the poor is evidenced by the table on welfare payments (Table A). Such differences in payment levels combined with the end of supplementary assistance as we have known it will undoubtedly lead to some migration. Housing opportunities for the rural poor will also vary from state to state and will be adversely affected by migrations of the poor to better treatment states.

The success of block grant housing programs for rural areas will not depend entirely on commitment and technical capacity. State finances are already being stretched. Many states,

including some with the best housing capability, such as California and Massachusetts, are in very serious financial condition. They are already in the position of having to supplement income maintenance and other programs affected by federal cuts. They face the reality that by 1988 federal money will cease for the 40 programs proposed for being folded into block grants in this year's budget message.

The following is a quote from "State Fiscal Conditions As States Entered 1982" by Gold and Benker of the National Conference of State Legislatures:

> "The dismal fiscal conditions of the majority of the states resulted from the National Economic Malaise. A recession implies slow growth of personal income, which leads directly to slow growth of tax revenues and increased demand for social services. The cutbacks of federal aid are not the primary cause of state fiscal distress but they exacerbate it. In fact, those cutbacks could hardly have come at a worse time in view of the anemic state of state budgets."

We would ask you to consider:

(1) 21 states have indicated that revenues are below forecasts.

(2) 24 states have cut staff, some by rather substantial numbers.

(3) California, Kentucky, Massachusetts, Michigan, Minnesota, Ohio, Oregon, and Washington have very serious budget problems.

(4) Missouri has indicated it will only accept food stamps and welfare if provided adequate federal funding.

(5) Oklahoma is in good financial condition, but does not plan to accept all of the programs offered.

(6) The Governor of Oregon proposed a budget reduced by 10 percent from the previous year. The legislature cut an additional 3.5 percent.

(7) Iowa cut 1,000 state jobs, after federal cuts of $129 million. Another $140 million federal reduction is anticipated.

(8) New Jersey is beginning to have financial difficulties. Rural program would be lost in such an atmosphere in this urban state.

(9) Washington is experiencing higher unemployment than during the Great Depression, and does not have the financial capability to handle new federalism. Washington has borrowed $400 million from New York banks to offset loss of $382 million in federal funds.

(10) On a national average, state taxes per resident rose 156 percent in the past 10 years to $607.

In such an atmosphere, it is difficult to see the wisdom in converting the FmHA programs to block grants. Even in states willing and able to encourage rural mortgage lending, the private sector is often recalcitrant. As Rural America, Inc. recently reported:

> "The Texas State Housing Finance Agency proposed a bond issue in which a proportion of the loans would be made to rural and other nonmetropolitan banks for home mortgages outside of the state's largest cities. When the Housing Finance Agency went to the bond market, they were shocked to meet with resistance to their proposal from underwriters. Here, in a loans to lenders program in which a state attempted to stimulate its nonmetro lenders and housing industry, credit barriers were such that rural and small town people were prevented from maximum benefit. This is as clear an indication as any of the inability of states alone to fill their own credit gap due to the resistance of private financiers. Surely the Farmers Home Administration is needed in this case in Texas as elsewhere throughout rural America."

D. FmHA Assistance to the Lowest Incomes

The report is critical of FmHA performance, but uses misleading statistics. We agree that FmHA should exert a greater

effort to serve those below 50% of median income but recognize they are also constrained by the kind of subsidy available and its direct relationship to income.

Table 2 in the Commission report shows service to income groups by percentage of that particular population. A fairer analysis would provide percentages of the actual loans extended with an explanation of the type of subsidy available. FmHA programs are regulated in scope by Congressional authorization and appropriation. The average adjusted household income for all Section 502 low to moderate income home ownership loan recipients was $9,601 in FY 1981. Using average figures for 1981 the minimum required income for payment of principal, interest, taxes and insurance (PITI) at 20% of income for PITI was $8,170 for an existing unit and $9,460 for a new unit. (See cost and affordability data in Table F.) Most of the available rental assistance, a deeper subsidy, was used for units in previously financed projects.

The National Rural Housing Coalition has recommended legislation requiring FmHA to establish better priorities for serving the very low income and those living in inadequate housing, rather than dismantling a very effective system. We agree with the Coalition's position.

TABLE A

EFFECT OF BUDGET RECONCILIATION ACT AND FY 1983 BUDGET PROPOSALS ON MONTHLY DISPOSABLE INCOME* AND POVERTY STATUS** OF NON-WORKING AFDC FAMILIES

	PRIOR TO BUDGET RECONCILIATION ACT		CURRENT LAW		FY 1983 PROPOSALS	
	DISPOSABLE INCOME	PERCENT OF POVERTY LEVEL INCOME	DISPOSABLE INCOME	PERCENT OF POVERTY LEVEL INCOME	DISPOSABLE INCOME	PERCENT OF POVERTY LEVEL INCOME
ALABAMA	$307	52%	$307	52%	$301	51%
ARIZONA	370	63%	370	63%	363	62%
ARKANSAS	311	53%	311	53%	305	52%
CALIFORNIA	584	99%	584	99%	561	95%
COLORADO	468	79%	468	79%	435	74%
CONNECTICUT	563	96%	563	96%	509	86%
DELAWARE	438	74%	438	74%	405	69%
DIST. OF COL.	450	76%	450	75%	427	72%
FLORIDA	377	64%	377	64%	368	62%
GEORGIA	362	61%	362	61%	351	60%
IDAHO	466	79%	466	79%	436	74%
ILLINOIS	449	76%	449	76%	428	73%
INDIANA	419	71%	419	71%	398	68%
IOWA	505	86%	505	86%	466	79%
KANSAS	467	79%	467	79%	445	76%
KENTUCKY	376	64%	376	64%	354	60%
LOUISIANA	366	62%	366	62%	356	60%
MAINE	462	78%	462	78%	428	73%
MARYLAND	432	73%	432	73%	408	69%
MASSACHUSETTS	518	88%	518	88%	478	81%
MICHIGAN	513	87%	513	87%	489	83%
MINNESOTA	573	97%	573	97%	522	89%
MISSISSIPPI	287	49%	287	49%	279	47%
MISSOURI	409	96%	409	96%	393	67%
MONTANA	472	80%	472	80%	431	73%
NEBRASKA	500	85%	500	85%	460	78%
NEW HAMPSHIRE	505	86%	505	86%	457	78%
NEW JERSEY	500	85%	500	85%	466	79%
NEW MEXICO	417	71%	417	71%	393	67%
NEW YORK	537	91%	537	91%	508	86%
NORTH CAROLINA	369	63%	369	63%	357	61%
NORTH DAKOTA	525	89%	525	89%	464	79%
OHIO	422	72%	422	72%	403	68%
OKLAHOMA	434	74%	434	74%	415	70%
OREGON	462	78%	462	78%	441	75%
PENNSYLVANIA	465	79%	465	79%	439	74%
RHODE ISLAND	567	96%	567	96%	526	89%
SOUTH CAROLINA	334	57%	334	57%	316	54%
SOUTH DAKOTA	478	81%	478	81%	441	75%
TENNESSEE	322	55%	422	55%	305	52%
TEXAS	306	52%	306	52%	301	51%
UTAH	503	85%	503	85%	471	80%
VERMONT	596	101%	596	101%	542	92%
VIRGINIA	417	71%	417	71%	398	68%
WASHINGTON	551	94%	551	94%	518	88%
WEST VIRGINIA	380	65%	380	65%	366	62%
WISCONSIN	579	98%	579	98%	539	92%
WYOMING	471	80%	471	80%	437	74%
AVERAGE	$450	76%	$450	76%	$423	72%

* Disposable income figures shown for each state represent the monthly AFDC, food stamps, and energy assistance benefits that would be paid to a non-working AFDC family of three.

** Poverty status is expressed in terms of monthly disposable income divided by the federally-published 1980 poverty level for a family of three, or $589 per month.

SOURCE: Center for the Study of Social Policy

PART II

Commission Recommendations for Private and FmHA Credit

"2a. The Commission supports the substitution of private housing credit for Federal assistance in rural areas. The credit assistance programs of the Farmers Home Administration should be continued, but without subsidy, and should be conducted in a manner to encourage the growth of private housing credit. FmHA should actively support the substitution of private financing for Federal assistance whenever possible. To this end Farmers Home should utilize guarantees of loans originated privately rather than direct lending whenever practical. All Farmers Home Administration direct and guaranteed loans should be made at rates and terms comparable to those prevailing in local areas for private credit.

2b. Further, the Commission recommends that consideration be given to ways to promote and implement the development of secondary market activity involving rural housing loans. This would allow existing financial institutions, to expand their lending and debt servicing activities and would further encourage the entry of other loan originators."

The recommendation in 2a for unsubsidized guaranteed credit is counterproductive and changes the basic mission of the FmHA.

FmHA currently serves a much lower income clientele in its Section 502 program than can be assisted without subsidy. This is borne out by the following tables.

FmHA is serving a population that cannot otherwise be served. If its program were converted to a HUD-FHA type guaranteed program, costs to the government (federal, state or local) would increase. FmHA has kept its subsidized homes of modest design, in sharp contrast to that of all other lenders, thereby limiting the need for subsidy per unit. Table E provides a look at the housing cost differences between lenders. Why model success after something less desirable?

If income served and modest housing costs are not argument enough to retain the FmHA rural housing programs, certainly affordability is. Table F contains affordability data. The figures cited represent 1981 average Section 502 mortgages for the United States. The 20% of income for PITI for low-income households is a limit justified by the other cost data in Table G. A 25% figure was also used for comparison purposes, but if used, would jeopardize affordability for much of the presently eligible FmHA population. Since conventional credit terms vary, we have provided several examples of average FmHA houses financed at private credit rates and terms.

The Commission makes another recommendation which appears sound on the surface, but falters on close examination.

> "In addition, Farmers Home should promote the development of a cadre of lenders knowledgeable in the special requirements and circumstances of rural areas by contracting much of all of its own lending and debt servicing through private financial institutions or agencies. Qualified agents should make and service loans under the regular FmHA programs, but only on a part time basis, in order to develop a detailed knowledge of local credit markets for all income levels."

FmHA staff is already pressed to perform all necessary tasks, let alone train private bankers. We also doubt this is a role intended by legislation. Rather it is an acknowledgement by the commission of FmHA competance.

There is also an inference in this section of the report that FmHA has a responsibility to all rural families adversely affected by shortages of credit. This is not the case. FmHA, by law, is directed to supply assistance to specific income groups (primarily low- and moderate-income) who need housing and meet "credit elsewhere" tests. It was never intended to operate guaranteed programs in the manner of HUD-FHA.

A summary for this part can best be stated: change a program that works well into one whose feasibility is questionable.

TABLE B

Income: Distribution of rural mortgages, by household income and by mortgage type, 1976

Household Income	Type of Mortgage			
	FmHA	FHA	VA	Conventional
Dollars			Percentage	
Recent mortgages: (1)				
Less than 5,000	6.8	4.4	2.1	6.5
5,000 to 9,999	40.1	15.2	5.6	16.4
10,000 to 14,999	35.4	30.1	20.3	24.3
15,000 to 19,999	8.6	20.4	30.2	20.6
20,000 to 24,999	8.1	16.8	20.4	14.3
25,000 and over	1.0	13.1	21.4	17.9
TOTAL	100.0	100.0	100.0	100.0
			Dollars	
Median Income	10,433	15,083	18,652	15,679
			Percentage	
Older mortgages: (2)				
Less than 5,000	8.2	8.5	5.5	5.6
5,000 to 9,999	30.0	18.9	7.0	14.3
10,000 to 14,999	31.1	23.5	25.6	23.1
15,000 to 19,999	18.3	20.8	24.2	22.1
20,000 to 24,999	4.3	14.1	15.2	14.3
25,000 and over	8.1	14.2	22.5	20.6
TOTAL	100.0	100.0	100.0	100.0
			Dollars	
Median Income	11,901	14,828	17,465	16,586

(1) Mortgage loans obtained during 1974-76.
(2) Mortgage loans obtained before 1974.

Source: 1976 Annual Housing Survey

Table C

502 RH Subsidized Loan Distribution by Income Group - 1980

Number of Loans	1,240	1,240	1,570	3,141	5,952	8,514	10,508	12,978	19,838
Percent of Loans	1.9	1.9	2.4	4.8	9.1	13	16	20	30
Adjusted Family Incomes	Under 3,000	$3,000 3,999	4,000 4,999	5,000 5,999	6,000 6,999	7,000 7,999	8,000 8,999	9,000 9,999	10,000 11,200

Source: FmHA Single Housing Family Staff

Table D

Rural Households by Income Groups - 1977 Annual Survey

No. of households	1,641,415	1,753,330	1,566,806	2,294,251	1,193,756
Percent of Total Population	8.8	9.4	8.4	12.3	6.4
Income Groups	Under $3,000	3,000 4,999	5,000 6,999	7,000 9,999	10,000 11,199

Source: FmHA Single Family Housing Staff

TABLE E

Median Sales Price of Housing Sold by Type of Financing

PERIOD	MEDIAN SALES PRICE					
		Type of Financing				
	TOTAL SOLD	FHA insured	VA Guaran.	Conven-tional	FmHA	Cash
ANNUAL						
1973	32,500	22,100	27,100	35,200	(#)	32,900
1974	35,900	29,800	31,300	38,000	(#)	37,200
1975	39,300	32,300	35,000	43,900	22,500	38,200
1976	44,200	34,500	37,700	48,000	22,900	41,900
1977	48,800	37,700	41,600	53,400	25,800	67,500
1978	55,700	45,400	47,700	61,300	30,400	50,900
1979	62,900	52,400	55,300	70,300	32,300	60,000

TABLE F

Rural Housing Affordability Calculations

		Existing Dwelling	New Dwelling
A.	Average FmHA Mortgage	$33,173	$37,222
B.	Average Taxes and Insurance	452	565
C.	FmHA 33 year mortgage @ 13.25%		
	1. Mortgage payment	4,454	4,998
	2. PITI	4,906	5,563
	3. Minimum Income @ 20% for PITI	24,530	27,815
	4. Minimum Income @ 25% for PITI	19,624	22,252
D.	FmHA 33 year mortgage @ 1%		
	1. Mortgage Payment	1,182	1,327
	2. PITI	1,634	1,892
	3. Minimum Income @ 20% for PITI	8,170	9,460
	4. Minimum Income @ 25% for PITI	6,536(a)	7,568(a)
E.	30 year mortgage @ 15%		
	1. Mortgage Payment	5,036	5,650
	2. PITI	5,488	6,215
	3. Minimum Income @ 20% for PITI	27,440	31,075
	4. Minimum Income @ 25% for PITI	21,952	24,860
F.	25 year mortgage @ 15%		
	1. Mortgage Payment	5,099	5,722
	2. PITI	5,551	6,287
	3. Minimum Income @ 20% for PITI	27,755	31,435
	4. Minimum Income @ 25% for PITI	22,204	25,148
G.	20 year mortgage at 15%		
	1. Mortgage Payment	5,242	5,883
	2. PITI	5,694	6,448
	3. Minimum Income @ 20% for PITI	28,470	32,240
	4. Minimum Income @ 25% for PITI	22,776	25,792

(a) Lower income households cannot afford to pay 25% for PITI. Note average consumer costs in Table F.

Contrast the conventional market costs and affordability with the incomes served by FmHA through Section 502 in FY 1981.

Average Adjusted Income - $ 9,601
Average Gross Income - 10,638

In addition, the average adjusted income for Section 504 repair loan recipients was $5,080.

TABLE G

Living Expenses, Family of Four

Adjusted Income	8,000	10,000
Gross Income	10,063	11,574
Expenses:		
Food	3,975	3,975
Transportation	1,368	1,368
Utilities	1,041	1,041
Taxes	1,321	2,048
Other	1,584	1,584
TOTAL	9,289	10,016

Source: FmHA Single Family Housing Division

The costs in either Table F or G do not include home maintenance. We estimate an average $373 for this expenditure in FmHA homes.

Implementation of the Commission's recommendation will rule out participation by most rural households in need of decent housing even if the guaranteed approach were feasible. Consider the incomes of those living in rural substandard housing:

TABLE H

Occupied Rural Substandard Housing Units by Selected Groupings of Income

Zero Income	16,973
$1 - 2,000	103,437
2,001 - 4,000	355,840
4,001 - 6,000	223,137
6,001 - 8,000	168,570
8,001 - 10,000	164,886
10,001 - 12,000	153,820
12,001 - 14,000	119,484
14,001 - 20,000	276,784
20,001 - 30,000	215,045
30,001 - 40,000	59,830
40,001 and above	49,202
TOTAL	1,907,008

SOURCE: Annual Housing Survey, 1979

PART IV

Commission Recommendations on Improving

FmHA Program Administration

"4. The Commission believes that the agency's obligations to the taxpayer and to its borrowers are best served with a credit policy that emphasizes prudence, discipline and responsibility on the part of the lender and borrowers. Improvements should be made in the management of the Farmers Home credit programs, especially to reduce the abnormally high loan delinquency rates."

Our response to the comments in this section are not in the order as they appear in the Commission's recommendations. The Commission suggests utilizing contracts with private lenders as a means for reducing delinquency and improving loan servicing. It is worth noting that a 1979 FmHA pilot project involving the takeover of FmHA's accounting and loan servicing functions in three states (not including the delinquent accounts) by private banks had to be cancelled when bank bids revealed that their budget would be much higher than that of FmHA for the same services, and that, in the words of an FmHA official, "estimated cost now exceeds anticipated benefits by $600,000."

In addition to the expenses of servicing and making loans, there are hidden costs of private mortgage financing which, while

not quantified here, may at least be identified. They include the costs of avoiding disintermediation (to date, banks have had to borrow money at higher interest rates than those at which they previously made loans to borrowers, forcing them in the long run to incur the costs of selling their loan assets on the secondary market); foreclosure costs (because of the prevalence of mortgage insurance, banks have little incentive to examine the quality of a loan's security, particularly of the property being bought - the record of poor appraisals and defaults with Sec. 235 loans is indicative of this problem); costs to the government of FHA insurance, where applicable (bank laws virtually require insurance and where FHA or VA is involved, the cost of insuring luxury homes and of maintaining the bureaucracy is shared by the "subsidized" loans); the cost of money; the cost of arbitrage where the state plays a part in the subsidy; and the cost to the government of tax-exempt bonds.

The FmHA rural housing programs have been alternately praised as successful and condemned as having uncontrolled delinquency. The Housing Assistance Council has examined FmHA accounts and concluded that the agency has compiled a remarkable record (HAC doubts that any other agency, public or private, has achieved any better record), particularly so in light of its legislated mission. We have developed data in this report which substantiates our conclusions.

In looking at the FmHA statistics it is most important to remember who they serve:

(1) FmHA is the lender of last resort. Its borrowers are those unable to obtain private credit or finance housing with their own resources.

(2) Until recently, the income limits for the Section 502 and 515 programs (Section 504 is for very low income applicants) were $11,200 (low income) and $15,600 (moderate income). The average adjusted income for households receiving home ownership loans was $9,601 in FY 1981.

(3) FmHA borrowers are found toward the low end of the economic ladder. They have little reserve capacity and are quickly affected by economic downturns. As a group they are probably among the first to be severed from employment when recessions occur.

(4) The FmHA 502 program constructs modest housing. The average new house financed in 1981 contained 1051 sq. ft. of living area and cost $37,222.

(5) High delinquency notwithstanding, the agency has a low loss rate, which is what really counts.

Table I provides a good look at FmHA accounts and how prudent the agency has really been.

TABLE I

I. FmHA SECTION 502, 504 AND 515 HOUSING ACCOUNT

ACTIVITY DURING FISCAL YEAR 1981

	ITEMS	502 & 504 [a]	515
1.	Number of Borrowers 9/30/80	1,394,644	7,633
2.	Amount of Outstanding 9/30/81	$17,728,454,985	$3,000,557,864
	FY 1982		
3.	Number of Loans Made	93,040	1,466
4.	Dollars Loaned	$ 2,601,476,640	$ 166,094,182
5.	Account Transactions		
	Total cash collections	$ 1,761,697,678	$ 166,094,182
	(interest collected)	962,874,429	115,558,699
	Judgements (prin + int.)	58,673	
	Writeoffs (prin + int.)	1,976,214	10,913
	Other [b] (prin + ints.)	189,156,862	182,287
6.	Total Delinquency as of 9/30/81 [c]		
	Number of accounts delinquent	253,986	373
	Percentage of accounts delinquent	25.6% [d]	5%
	Dollars delinquent (overdue)	$ 200,457,000	$ 9,073,000
	Percentage of dollars delinquent	1.04%	2.2%
7.	502 Delinquency as of 9/30/81		
	Number of accounts delinquent	249,353	
	Percentage of accounts delinquent	26%	
	Dollars delinquent	$ 199,809,000	
	Percentage of dollars delinquent	1.04%	
8.	504 Delinquency as of 9/30/81		
	Number of accounts delinquent	4,633	
	Percentage of accounts delinquent	15.6%	
	Dollars delinquent	$ 648,000	
	Percentage of dollars delinquent	1%	
9.	Number of Accounts 9/30/81	1,461,492	8,487
10.	Amount Outstanding 9/30/81	$ 19,631,386,688	$3,753,952,478

(a) FmHA report code 752 (account transactions) combines Section 502 and 504

(b) Other transactions include: transfer and assumptions, acquired property (inventory) and default payments to lenders (FmHA has a very small guaranteed 502 loan portfolio)

(c) FmHA reports delinquency in two reports -- report codes 580 and 616. The latter yields a higher delinquency and is reflected in no. 6 above. The former shows time in delinquency status and does not include as delinquency borrowers with additional partial payment agreements on schedule or those under moratorium. 502 data from the 580 reports is included later in this analysis.

(d) The 27% figure used by the agency only includes monthly payment accounts.

II. Commulative Write-Off Data (Since inception)

a. Precent of principal actually written off

502 and 504 - 0.14%

515 - 0.004%

b. Percent of interest actually written off

Principal: 502 and 504 - 0.04%

515 - 0.018%

c. Ratio of cash repayments to write offs

Principal:	502	191.7 to 1
	515	1122.3 to 1
Interest:	502	452.7 to 1
	515	4849.9 to 1

The above data is a write off comparison to the total cumulative principal and interest advanced since inception.

III. Section 502 Delinquency by time - 9/30/81

Monthly Payment Borrowers (Report code 581)

1.	Number of active borrowers	902,692
2.	Number Delinquent	210,263
3.	Percent Delinquent	23.3%
4.	Number with one payment delinquent	79,103
5.	Percent of active borrowers	8.8%
6.	Number with two payments delinquent	40,396
7.	Percent of active borrowers	4.5%
8.	Number with three payments delinquent	22,496
9.	Percent of active borrowers	2.5%
10.	Number delinquent more than three payments	67,817
11.	Percent of active borrowers	7.5%

Annual Payment Borrowers: (Report code 583)

1.	Number of active borrowers	68,575
2.	Number of delinquent	6,727
3.	Percent delinquent	9.8%
4.	Percent of active borrowers up to 1 year delinquent	6.8%
5.	Percent of active borrowers up to 1 year delinquent	1.5%
6.	Percent of active borrowers up to 2-3 year delinquent	0.6%
7.	Percent of active borrowers over 3 years delinquent	0.9%

PART V

Commission Recommendations on Rural Prospectives and Rural Development Needs

"5. Care should be taken that rural perspectives and rural development needs are adequately incorporated in the development and administration of the housing block grant program."

It is unclear what the Commission is recommending in the section on administering rural housing block grants. It acknowledges the danger of rural areas being shortchanged if the grants were administered by HUD, yet it does not recommend administration by FmHA.

Under the circumstances (lack of decisive recommendation), we recommend scrapping the idea and retaining the existing, proven, and trustworthy system operating under FmHA.

CONCLUSION

The Commission's proposals would eliminate the direct lending housing programs of the Farmers Home Administration, by folding them into an FHA-type insurance program, or by replacing them with a housing block grant approach. These proposals are bereft of benefit for rural areas. In order to understand why, it is necessary to recall the reasons for FmHA's existence, its impressive record--given its resources--in carrying out its charge, and the virtual lack of evidence that a HUD program, an FHA insurance program, or a block grant address the housing requirements of rural areas as well or even at all.

FmHA was created because of the lack of credit in rural communities. Credit was (in 1947) and is now desperately needed in nonmetropolitan areas to overcome other glaring deficits: a lack of infrastructure, of capital for farm operations, of adequate housing, and of sanitary water and wastewater facilities. By intent and in practice, FmHA has been a lender of last resort, making loans only to eligible applicants who lack credit elsewhere. FmHA's credit is <u>supplementary</u> to private sector activity servicing a relatively low-income population which is far removed from most conventional lenders in both geography and compatibility. FmHA can hardly be said to be a competitor with the private credit market.

The agency is structured to deliver rural community development services in the most efficient fashion conceivable. It is a straight line agency whose approximately 300 district and 1900 county offices bring rural development resources--including those for business and industry, farming, community facilities, and housing--to about 3000 counties. Its state directors work in tandem with state governments. Its district and county personnel are close to their clients in distance as well as interest; indeed, they are usually residents of the communities they serve. Such proximity makes possible a local coordination and delivery of services which stands out in welcome contrast to the prevailing image of federal agencies, pictured in the popular imagination as so centralized geographically and philosophically in the nation's capital as to be dangerously uncomprehending and even indifferent to the local conditions over which they wield power.

FmHA's delivery system is essential for the provision of credit in rural areas. Many counties--530 by last count--have no savings and loans associations; where banks exist they have little mortgage capital and frequently less inclination to invest it with the average, let alone low-income local residents seeking to build or purchase a home. Among other disincentives to mortgage activity, rural lenders are seldom able to aggregate the number of loans necessary for package sales on the secondary mortgage market. Federal mortgage insurance agencies--FHA and

VA--and state housing finance agencies also steer clear of rural areas, as indicated by charts in other sections of this report.

Finally, FmHA's proximity to the client service population allows it to tailor programs to meet specific programs. It is difficult to conceive of another agency or resource that could integrate farm labor housing, self-help, and site development financing together with farm credit, and industrial and community facilities loans into a national approach to rural credit requirements.

FmHA is a nearly ideal lender of last resort for housing in rural areas, and as such, HAC recommends that it remain the Administration's rural credit program.

APPENDIX C

FmHA SECTION 502, 504, AND 515 RURAL HOUSING PROGRAMS,
A STATISTICAL HISTORY OF SUCCESS

The FmHA rural housing programs have been alternately praised as successful and condemned as having uncontrolled delinquency. The Housing Assistance Council has examined FmHA accounts and concluded that the agency has compiled a remarkable record (HAC doubts that any other agency, public or private, has achieved any better record), particularly so in light of its legislated mission. We have developed data in this report which authenticates our assumption.

In looking at the FmHA statistics it is most important to also know who they serve.

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2. Until recently, the income limits for the Section 502 and 515 programs (Section 504 is for very low income applicants) were $11,200 (low income) and $15,600 (moderate income). The average adjusted income for households receiving home ownership loans was $9,601 in FY 1981.

3. FmHA borrowers are situated toward the low end of the economic ladder. They have little reserve capacity and are quickly affected by economic downturns. As a group they are probably among the first to be severed from employment when recessions occur.

4. The FmHA 502 program constructs modest housing. The average new house financed in 1981 contained 1051 sq. ft. of living area and cost $37,222.

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	Percentage of accounts delinquent	25.6% [d]	5%
	Dollars delinquent (overdue)	$ 200,457,000	$ 9,073,000
	Percentage of dollars delinquent	1.04%	2.2%
7.	502 Delinquency as of 9/30/81		
	Number of accounts delinquent	249,353	
	Percentage of accounts delinquent	26%	
	Dollars delinquent	$ 199,809,000	
	Percentage of dollars delinquent	1.04%	
8.	504 Delinquency as of 9/30/81		
	Number of accounts delinquent	4,633	
	Percentage of accounts delinquent	15.6%	
	Dollars delinquent	$ 648,000	
	Percentage of dollars delinquent	1%	
9.	Number of Accounts 9/30/81	1,461,492	8,487
10.	Amount Outstanding 9/30/81	$ 19,631,386,688	$3,753,952,478

(a) FmHA report code 752 (account transactions) combines Section 502 and 504

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515 - 0.004%

b. Percent of interest actually written off

Principal: 502 and 504 - 0.04%

515 - 0.018%

c. Ratio of cash repayments to write offs

Principal:	502	191.7 to 1
	515	1122.3 to 1
Interest:	502	452.7 to 1
	515	4849.9 to 1

The above data is a write off comparison to the total cumulative principal and interest advanced since inception.

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4.	Number with one payment delinquent	79,103
5.	Percent of active borrowers	8.8%
6.	Number with two payments delinquent	40,396
7.	Percent of active borrowers	4.5%
8.	Number with three payments delinquent	22,496
9.	Percent of active borrowers	2.5%
10.	Number delinquent more than three payments	67,817
11.	Percent of active borrowers	7.5%

Annual Payment Borrowers: (Report code 583)

1.	Number of active borrowers	68,575
2.	Number of delinquent	6,727
3.	Percent delinquent	9.8%
4.	Percent of active borrowers up to 1 year delinquent	6.8%
5.	Percent of active borrowers up to 1 year delinquent	1.5%
6.	Percent of active borrowers up to 2-3 year delinquent	0.6%
7.	Percent of active borrowers over 3 years delinquent	0.9%

Appendix D

FmHA RECORD FOR REACHING THE GOAL OF 30%
OF FUNDS TO THOSE BELOW 50% OF
AREA MEDIAN INCOME
FY 1981

1- Section 502[a]	Total Dollars	$ 2,589,329,000
	Below 50% Dollars	341,262,000
	Percentage Below 50%	13.2%
2- Section 504 Loans and Grants	Total Dollars	40,614,000
	Below 50% Dollars	33,569,000
	Percentage Below 50%	82.7%
3- Section 514/516	Total Dollars	29,066,000
	Below 50% Dollars	29,066,000[b]
	Percentage Below 50%	100%
4- Section 515	Total Dollars	864,765,000
	Below 50% Dollars	403,845,260[c]
	Percentage Below 50%	46.7%
5- Total 4 programs	Total Dollars	$ 3,523,774,000
	Below 50% Dollars	$ 807,742,260
	Percentage Below 50%	22.9%

(a) From FmHA report code 638
(b) HAC assumption that all farmworkers served are under 50%
(c) Based on percentage of 1981 units with Rental Assistance and Section 8 (total = 29,500, R.A. 4,852, Sec. 8 =8,910=46.7%) Sec. 8 = Reservations for 1981.

Percent of 502 and 504 loans made to those under 50% of area median income in FY 1981 (Report code 638)

	Total Loans	Under 50%	Percentage Under 50%
502	87,415	12,127	13.9%
504 (Loans&Grants)	13,486	11,426	84.7%
TOTAL	100,901	23,553	23.3%

Percent of FmHA Section 502 Loans and Section 504 Loans and Grants to those at or below 50% of area median income

(First Quarter FY 1982)

	Total	Below 50%	Percent Below 50%
1- Section 502			
Number of loans	12,496	1,327	10.6%
Dollars	$352,367,000	$33,419,000	9.5%
2- Section 504 Loans and Grants			
Number	1,323	1,054	79.7%
Dollars	$ 4,020,000	$ 3,087,000	76.8%
3- Total 502 & 504			
Number	13,819	2,381	17.2%
Dollars	$356,387,000	$36,506,000	10.2%

NOTE: First quarter figures are poorer than for FY 1981. The combined 502 and 504 loan numbers were at 23.3%, and the dollars at 14.3% for FY 1981. The new figures show a performance decline of 6.1% and 4.1% respectively. HAC anticipates improvement in Section 504 when the new eligibility guidelines are made final. Unfortunately, without priorities, we see no improvement for Section 502.

Source: FmHA Report Code 638

APPENDIX E

Section 510 of the Housing Act of 1949 is amended as follows:

Subsections (h), (i) and (j) are redesignated subsections (i), (j) and (k) respectively and a new subsection (h) is inserted as follows:

"(h) issues rules which will be effective not later than 180 days after the date of enactment hereof, which shall assure, to the extent practicable, that assistance under this Title go to applicants most in need. In this regard, such rules shall provide that applications for assistance from households with the lowest incomes and most severe housing problems receive priority consideration for assistance. In determining which applications demonstrate the most severe housing problems the Secretary shall consider evidence of structural defects in the applicant's dwelling, lack of complete or adequate plumbing, the extent of overcrowding, the existence of hazards to health or safety, and the number of persons to be assisted. Applications should be periodically ranked and those that demonstrate the greatest need, processed first, except that any application for assistance pursuant to section 501(a)(4) of this Title shall be processed when it is received.".

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Senator SCHMITT. Please proceed with that, Mr. Wilson, and I would say for our record that we have contacted a number of people, some of whom have not yet responded and others we would anticipate would submit testimony for the record.

Mr. WILSON. Thank you very much, Mr. Chairman.

IMPACT OF LEGISLATIVE PROPOSAL

Let me respond first of all and most substantively to the legislative proposal that would block grant the FHA subsidy funds for fiscal 1983 levels to the States on an annual basis and would retain a direct and insured housing program at the Farmers Home Administration on a market rate basis. We have talked to the committee staff about this proposal and they have been gracious enough to brief us on it. I would like, however, to respectfully disagree with the proposal as it is presently presented.

We feel such a drastic change in the Farmers Home Administration programs would be a serious mistake and would impact adversely on the rural poor who need housing assistance. We readily admit that there are some problems with the Farmers Home Administration's delivery system and often in the ways in which they administer their program. We feel, however, that these problems can be solved by legislating changes in the way the Farmers Home Administration administers its housing programs.

As an example, Mr. Chairman, we agree with you very strongly that the subsidy money of the Farmers Home Administration should be directed to those most in need. We feel strongly that a targeting provision with some teeth in it that was directed at the Farmers Home Administration programs could possibly achieve this result.

We would like to see all of their subsidy money reach income levels of 50 percent of median income or less and add that the 525 counseling program at that agency should be refunded in order to assist the agency in counseling low-income families who in fact use their programs. But my understanding is that this program has been zeroed out in the fiscal year 1983 budget.

We feel that legislation could be set forth that would give weighted priorities to those under 50 percent of median income that would allow the Farmers Home Administration to use all of its subsidy money for those families.

Some of our specific concerns with the proposal are as follows, and we would like to suggest to you that these be looked into very deeply as you deliberate the formation of a bill.

The Farmers Home Administration is a lender of last resort. In our sense, it does not compete with local banking institutions but serves an income clientele that is much lower than those that are served by local banks. The average 502 borrower in fiscal year 1981 had a gross income of a little over $10,000, in fact, $10,683; and 38.5 percent of those borrowers had incomes below $10,000 annually. Private credit markets simply cannot serve these people and with no subsidy the Farmers Home Administration will in fact be thrown into direct competition with local banks and if the Farmers Home Administration retains its no downpayment provision it will

be a significant competitor for local banking institutions who have to have some kind of downpayment made.

I think we feel that this kind of approach would basically shift the legislative mission of the Farmers Home Administration from being an agency serving those who cannot receive credit elsewhere to going into competition with the local banks.

In preparing my comments I made a phone call to a local banker in Massachusetts that I used to work with when I lived up there and I asked him if the Farmers Home Administration, that works in the same area he does, provided competition for him and for his lending practices, and he indicated that this was not the case. He indicated that Farmers Home served people that he could not serve and would not serve and, in fact, they may lose one in nine borrowers to the Farmers Home Administration, but that represented no problem to him. However, he did indicate that if the Farmers Home Administration had no subsidy and were making market rate loans with no downpayment in his area, then the Farmers Home Administration would in fact be in direct competition with him, particularly if it served upper-income people above $18,000 or in the $20,000 income range which were the families that he's presently serving.

Another point that I'd like to make is that the Farmers Home Administration has a delivery capacity in place. As I'm sure you're aware, the agency has 1,966 county offices spread around the country with 300 district offices. I think the setting up of a duplicate delivery method within each State might be something that the committee would want to look at.

In addition, there are some concerns that we have relative to the present investment that the Farmers Home Administration already has particularly in its 515 projects. As you know, the rental assistance program has 5-year and 20-year contracts that operate within those programs. Farmers Home Administration is just getting ready to renew its first group of 5-year contracts. I would wonder what will happen at the end of another 5 years if the Farmers Home Administration does not control the rental assistance subsidy that is used in those projects and if the State were to decide that they did not want to put rental assistance money back into the Farmers Home Administration projects. I think in that sense there's a need to look carefully at the Government's investment that it already has in its 515 program.

In one sense, a similar situation might exist with the inventory properties of the Farmers Home Administration. Currently Farmers Home has a little over 8,000 units in its inventory. The houses are modest in design and very often are not marketable to upper-income clientele at market rates. The sense is that the Farmers Home Administration needs its interest credit provision in order to be able to market to lower income families the inventory units that it has.

In addition, there might be created some cumbersome administrative requirements that would be needed if one were to try to combine programs. As an example, there have been problems in the past with the Farmers Home Administration trying to use the section 8 program in working out different regulations with the Department of Housing and Urban Development in its 515 program.

The rental assistance program, as you know, was designed specifically to work with the 515 program and being controlled by one agency that effort has worked extremely well.

The legislation provides for construction of homes which are modest in design and that is defined as homes that do not exceed the minimum property standards. Our sense is that the minimum property standards are in fact the minimum and we would wonder if there are areas of the country that in fact have standards that are higher than the minimum property standards where the program might not be able to operate.

The Federal programs are not close to the people and do not respond effectively to the needs of people on a local level is one complaint that's been raised against the Farmers Home Administration. I'd like to suggest that again Farmers Home has over 1,900 county offices and many of these offices are staffed by individuals that come from the communities that they serve. As a result, they reflect the views, they reflect the attitudes of the local community.

As an example, in Illinois, there are 52 county offices; in Maine, 29; in South Dakota, 42. It seems to me to be a fairly extensive outreach capacity that the agency has to reach the poor.

DELINQUENCIES

Another concern with Farmers Home has been that it can't handle the delinquencies in its programs. I think that presently, as I understand it, delinquencies have been reduced from 30 percent to around 19 percent because of the extensive servicing that the agency has just gone through. I think we need to remember that Farmers Home borrowers are very often borrowers at the bottom of the economic ladder. Yet if you look at the record since the inception of the housing programs, the Farmers Home Administration through September of 1980 has lost only about 14/100ths of 1 percent of its principal and if all of the inventory properties that the Farmers Home Administration has presently were lost to the agency and taken as a loss, that loss would represent less than 1 percent of the agency's principal. As a result, the Farmers Home Administration has done an outstanding job.

This isn't to say that delinquencies are not a problem and that the Farmers Home Administration shouldn't concentrate on servicing and on taking care of its delinquencies, but I don't think that issue should be used as an argument for getting rid of some of the provisions and some of the programs that the agency currently has.

Let me say, Mr. Chairman, in conclusion, that the block grant approach itself also presents some problems. I would like to echo what a couple of other witnesses have said in the sense that there needs to be some kind of multiyear funding for the program. When a developer or builder gets ready to build, they need to realize that there's some kind of long-term support for their effort and we would be concerned with a 1-year authorization. The vulnerability of a 1-year commitment as a result is of deep concern.

Also, States vary widely in their ability to administer housing programs and we think the committee should consider this very seriously. Many are currently in deep financial trouble and are wres-

tling with the problems of how they're going to administer those Federal programs that are already targeted for transfer to them.

As an example, housing officials in the Washington Housing Division indicate to us that they feel that they would not have the resources to take on a rural housing block grant program, and other State legislatures have already voted not to take the small cities block grant program themselves.

It's anticipated that State housing finance agencies will administer the program also in many States, and I would agree with Mike Echols that the housing finance agencies have come a long way in terms of their ability to serve rural communities and their work in rural areas. However, their expertise and their organizations are primarily set up to deal with larger cities and I think one should look carefully at the kind of delivery mechanism that would have to be established to equal that of the Farmers Home Administration.

Finally, I'd like to suggest that the small cities block grant program is a demonstration that is just getting underway and that it might be worth pausing to have a look at how that block grant program is going to work and to do some kind of evaluation of its effectiveness.

Finally, we feel that the Farmers Home Administration, even though it has problems that we will readily admit to, remains an excellent vehicle for delivering housing in rural communities and we would suggest that its structure be kept intact and that in fact its programs be reauthorized at fiscal year 1982 levels.

Mr. Chairman, I want to thank you very much for the opportunity to appear and present these comments to the committee.

Senator SCHMITT. Thank you, Mr. Wilson, and I want to thank you also for your contributions in the discussions with staff. I think you will find that many of your detailed concerns will be taken care of in the final legislation. In particular, there would have to be a no credit elsewhere test before the Farmers Home would come into the provision of loans and so the competition with existing lending institutions would disappear under that criteria.

Since we're limited in time, I wonder if I could ask Mr. Matthews and Mr. Echols to respectively comment on whether the States can provide a better track record than Farmers Home has provided. Farmers Home is schizophrenic in this area. They are primarily a farming assistance organization and only secondarily have been asked to get into the housing business, and at least in New Mexico haven't done that very well. They do have their attention primarily on farming.

Mr. Matthews, would you care to comment?

Mr. MATTHEWS. If I could comment, Mr. Chairman, I know primarily the State of Massachusetts and of our other States have their own public housing programs as I described earlier to you, and certainly have the capacity and ability to carry out the program as outlined by you in your proposed legislation.

Again, I can't speak for the other States. I can speak for Massachusetts, which is also centered in my secretariat, but we would have no problems in assuming the block grant program for rural areas. We now deal, as I said earlier, with all of our rural communities and in fact much of our Farmers Home housing is being

built in rural areas as well as the so-called inner cities. I know many other States—California and others—do have their own public housing programs, do have their own division of housing within their various secretariats that would have the ability to meet the needs of the proposed program. Other than that, I really couldn't distinguish between what they could do in the rural areas that we couldn't.

THREE-YEAR AUTHORIZATION

Senator SCHMITT. I should say that we will seek a 3-year authorization. Again, I sit on the Appropriations Committee and I know how difficult it is to know what's going to be appropriated at any given time, but with a 3-year authorization and with support from the States the chances are enhanced that there will be more consistent funding out of appropriations than you have I think even under the existing program where many States do not have a vested interest in a block grant or comparable type of activity.

Also, the 3 years does provide a time of transition. States don't have to assume the block grant. The Federal program could continue or a comparable program could continue administered by the Federal Government while they make up their mind. Now incentives are going to be very strong to develop a housing authority in those States that feel at the current time they do not have the capability to undertake such a program, as Massachusetts does.

Mr. MATTHEWS. I would just like to add that in Massachusetts we have 140 housing authorities that we have throughout the various communities in the State and in some cases they are regional housing authorities which take care of many of the rural areas of our State. We have the vehicles. Connecticut also, I believe, has the very same system. New Hampshire is building their system right in the New England area.

I would just say look at the record just on the CSPG program, which has now been administered by States which did take it on this past year from October, and we've had good success with that program in delivering the services to low-income people, particularly through the CAP agencies, and also in the area of the small cities program, two-thirds of the States did opt to take it on and one-third didn't, but primarily because of the lateness of the start of the program many had said early on that they would assume the program but as time went on the regulations didn't come out until March and that was very difficult. We in Massachusetts were prepared and had been working toward the goals and it's running very smoothly at the present time with three applications in my State are coming in on May 3 for the program and we have reduced the paperwork burden. We will not accept an application over seven pages. We will not do that and it will be returned to them. The results in that particular small city's application there has to be included in those seven pages, three of those pages have to be a housing policy of that community. If there's no housing policy attached, there will be receipt of the application. It will be rejected. So we are doing a lot of these things to speed up the program and get the money out there and get the program developed.

Senator SCHMITT. Mr. Echols.

Mr. ECHOLS. Mr. Chairman, as my detailed testimony indicated, our survey showed that all the respondents were willing and felt that they were able to take on the housing block grant program. We found that there was some concern about the level of funding, that the level of funding wasn't great enough and they felt they would not be able to adequately provide those kind of services.

Senator SCHMITT. Do you think that a block grant program administered by the States is more likely to serve the very poor, the truly needy, than what we have seen so far served by Farmers Home Administration?

Mr. ECHOLS. I think that depends entirely on the level of funding. The more funding you have, the lower the income you could serve.

Senator SCHMITT. Well, doesn't it go the other way? The State may have a greater ability to target to the truly needy the funds that are available.

Mr. ECHOLS. I think the States would probably have a better feeling from the local level as to how they wanted the targeting to go.

Senator SCHMITT. What would happen in South Dakota? Is there a great need for rehabilitation in South Dakota or is there a need for new housing?

Mr. ECHOLS. There is a need for rehabilitation, a need for new construction. Most of our housing stock is not as old as that on the east coast. Most of the rehabilitation that needs to be done really has to do with energy type improvements on those existing units. We find a lot of our citizens with the increased cost of fuel their mortgage payments are now less than their heating bills on an annual basis, which is a real burden on those people.

Senator SCHMITT. Mr. Wilson, did you have any final comments that you wished to make?

TARGETING COMMITMENT

Mr. WILSON. I'd just like to add, Mr. Chairman, that I'm not too sure that the States would have the capacity to target better than the Federal Government could target. I think that entirely depends on the commitment of the State to serve the needy and the willingness of the State to design and implement delivery mechanism that can effectively reach the poor and on the State's ability to tie the subsidy to some other kind of delivery vehicle. The subsidy is very often operated as an add-on. It adds on to the Farmers Home Administration loan program. In the States it's going to have to add on to some other kind of delivery capacity such as the bonding capacity of the State housing finance agency or some other kind of basic funding source for housing, unless it's given out as repair grants or something of that nature which some ought to be. But I think the ability to target very definitely runs to the kind of program that the State decides to administer and to the income levels that the States decide to reach.

Senator SCHMITT. That sounds like an argument for the block grant program.

Mr. WILSON. My own sense is that it's much easier to control the way the Farmers Home Administration would target legislatively than it is to evaluate 50 State programs.

Senator SCHMITT. If you're really going to target it appropriately, that means you have 50 separate sections in the Farmers Home Administration each one for a different State. I'll tell you, Massachusetts has a lot different needs for rural housing than does New Mexico. I'll guarantee you that.

Mr. WILSON. I realize that that's the case, as does Alabama from South Dakota. That's very true. But, nonetheless, I think from the Federal level one could look at the way the Farmers Home Administration targets its programs and one could design a targeting mechanism that would be very effective and much easier to monitor.

Senator SCHMITT. Well, I hope that you would provide us with some suggestions along that line.

Mr. WILSON. We certainly would be happy to.

Senator SCHMITT. The committee is not locked into this, but we just feel that the Farmers Home Administration's track record is abysmal.

Mr. WILSON. Sure.

Senator SCHMITT. And it is not serving those that most need that service and we're searching for a way in which we can at least improve the statistical probability that the most needy are going to be served and, as has been indicated by the testimony of Mr. Matthews and Mr. Echols, most States—not all at this time—but most States feel that they can do it better than the Farmers Home Administration.

Gentlemen, thank you very much.

We'll move on to our second panel and last panel consisting of Joe Hatfield, executive director of the West Virginia Housing Development Fund; Sharon M. Lunner, executive director, Maine State Housing Authority; and George Dinges, director of Government and Community Services, Illinois Department of Commerce and Community Affairs.

Mr. Hatfield, would you proceed?

STATEMENT OF JOE W. HATFIELD, EXECUTIVE DIRECTOR, WEST VIRGINIA HOUSING DEVELOPMENT FUND

Mr. HATFIELD. I am Joe W. Hatfield, executive director of the West Virginia Housing Development Fund, a public corporation which acts as West Virginia's housing financing and development agency.

The housing development fund operates financing programs for section 8 assisted, FHA insured rental projects; section 8 noninsured projects; subdivision development projects; single family mortgage purchases, both federally and privately insured. The West Virginia Housing Development Fund has raised over $600,000,000 from the sale of tax-exempt notes and bonds to provide assistance to over 26,000 families in the State. The State of West Virginia has made housing improvement one of its major objectives and particularly the physical, structural, and financial difficulty in developing housing for low- and moderate-income families. West Virginia has backed up that commitment as it has provided for over $200,000,000 in mortgages from its investment portfolio and only this spring the legislature provided for an additional

$50,000,000 in mortgages from funds of the workman's compensation fund.

The housing development fund also operates as a statewide public housing authority in the administration of over 4,900 units of section 8 existing leased housing including moderate rehab; and as agent for the State of West Virginia; and for local county and city governments, administers over $14,500,000 in community development block grant funds for disaster recovery, the USDA-HUD rural demonstration program, and the CDBG funded rural home rehab program.

In addition, to housing rehabilitation and disaster recovery grants, the housing development fund administers a 2-year, $806,000 comprehension CDBG grant which, to our knowledge, is the first received by any State. The grant provides services in the areas of: Bond financed rehabilitation; water/sewer coordination and development; and up-date of the 1977 housing development fund publication "Housing Needs Analysis"; continuation of its HUD section 8 moderate rehabilitation program; and the development of a formal, comprehensive statewide housing training and technical assistance program.

The housing development fund has served as West Virginia's implementing agency for the Appalachian Regional Commission's housing block grants since September of 1978, and in July of 1979, the housing development fund began administering HUD CDBG funds for the State of West Virginia.

These funds have assisted, or will assist, in the production of approximately: 1,676 units of rehabilitated housing; 1,435 units of multifamily/elderly assisted rental housing; 12 community development projects—water, sewer, access roads, etc.; and 1 flood protection project for 139 chronically flooded homes.

As a result of these activities, the housing development fund presently has the staff experienced in CDBG program and administration requirements such as, Davis-Bacon labor compliance, EEO, environmental review, section 8 eligible housing activities, minimum property standards and audit requirements.

This funding is nearly depleted. In line with Gov. Jay Rockefeller's decision to transfer the States housing responsibilities to the housing development fund, we hope that in the future the housing development fund will be able to continue its involvement in the block grant approach to the delivery of housing services.

I have reviewed the proposed amendments to title V of the Housing Act of 1949, and have concluded that housing services under these amendments would be very difficult and cumbersome for the housing development fund to administer and I could not provide assurance that additional families would be served under this concept for the following reasons:

First, mortgage financing under conditions which provide for a low down payment, long term, affordable rate loan is not readily available in rural areas. The removal of the ability to reduce the rate virtually assures the lack of such financing from any source. Only preferred customers can get 17 percent loans at 20 to 30 percent down for 20 years. A family buying a home would have to pay $586.73 principal and interest. This would require an annual

income of at least $28,163, hardly a program for low- and moderate-income families.

Second, buyers and lenders would not be attracted to a market rate guaranteed loan program that depended upon an interest credit payment to be prudent when that payment is subject to annual congressional appropriations, thereby reducing the loans made in rural areas.

Third, lenders will not be attracted to a program that does not have the financial incentives that a typical market rate program has: (a) Little bureaucracy; (b) few servicing responsibilities; and (c) volume of loans to justify separate delivery systems.

Fourth, the definition of a low income appears to be lifted from the HUD legislation and is unworkable in most rural areas. In West Virginia, the State median is about 80 percent of the national median or about 64 percent of national median. Since this number varies by as much as 50 percent from the State median in some counties, those counties would have a limit of about 32 percent of national median. Since the cost of producing a new house does not differ significantly from county to county the ability of families in very poor areas to obtain a new house is severely hampered.

Fifth, the definition of modest does not allow units which exceed HUD's minimum property standards, since these standards are minimum and not maximums, all units would be built to standards less than the HUD minimum property standards. Further, all areas which have standards which use as a guide BOCA, southern building code, et cetera, would be ineligible by this definition.

Sixth, two separate delivery mechanisms would exist under this plan. The ideal solution would be to put all functions under one delivery agent to eliminate confusion, overlapping, and waste of precious funds.

Seventh, because of the lack of multiyear commitments and the inability to leverage resources over a feasible financing period a possible tradeoff of housing quality to achieve a volume of production or housing assistance is likely.

Eighth, the process of consulting local officials in developing a spending plan may prove inconsistent with the goal of attempting to provide a "consistent system of Federal aid for rural areas."

The West Virginia Housing Development Fund is prepared to deliver the housing services that are available to it. Should these amendments be approved, as proposed, these task will be unnecessarily cumbersome and difficult. For some States this process may be impossible. We stand ready to assist this committee and its staff to provide for a program that delivers the product to the public that is intended.

Senator SCHMITT. Thank you, sir. Those difficulties that you point out are very helpful to us, and we will try to take them into account as the program is developed.

Our next witness is Sharon Lunner, executive director, Maine State Housing Authority.

STATEMENT OF SHARON M. LUNNER, EXECUTIVE DIRECTOR, MAINE STATE HOUSING AUTHORITY

[Complete statement follows:]

Prepared Statement of
Sharon M. Lunner
Director, Maine State Housing Authority
Before the United States Senate
Subcommittee on Rural Housing and Development

Mr. Chairman and members of the Rural Housing and Development Subcommittee, thank you very much for the opportunity to testify today. My name is Sharon Lunner and I am Director of the Maine State Housing Authority. I also serve on the Council of State Housing Agencies' Committee on Rural Housing.

Background on the Maine State Housing Authority

Today I want to make the point that state capacity for the delivery of housing programs to rural areas should be recognized and used as a starting point for developing any new rural housing delivery programs. The Maine State Housing Authority was created by the Maine Legislature in 1969 to address the housing needs of the state's elderly and low-income residents.

Since then, the Authority has implemented a variety of housing programs, through its ability to issue tax-exempt mortgage revenue bonds - the majority of which assist families in rural areas.

In the Multi-Family Development Program, the Authority has financed over 4,000 apartment units. Of these, 70% have been located in rural areas as defined by the Farmers Home Administration. The Authority's market analysis and underwriting standards have worked in making certain that these developments, financed almost entirely without FHA insurance, are sound, well managed, and well constructed.

The Authority has been responsible for the delivery of most of the state's Section 8 New Construction and Substantial Rehabilitation units. In addition, over 300 Section 8 Moderate Rehabilitation and 600 Section 8 Existing units have been provided to rural areas, including isolated rural areas, typically through cooperation agreements with local community development and non-profit agencies.

In addition to the Multi-Family Development Program, the Maine State Housing Authority has made 5,000 single-family home purchase loans and 1,600 energy improvement loans of which over 72% have been made in rural areas.

Recently, the Authority undertook the development of significant state housing legislation, which is currently before the 110th session of the Maine legislature. Governor Brennan's Housing Opportunity For Maine Program (HOME) offers an innovative and flexible way to continue to address serious housing needs, particularly in the state's rural areas in the wake of major reductions in federally-assisted housing support. The HOME program, for example, provides a means of producting assisted rental housing at far less cost than Section 8 and on a scale compatible with local market conditions. It emphasizes owner-occupied rental housing, which is among the most traditional forms of rental housing in rural areas, through such means as the conversion of large energy, inefficient homes to

such uses and relies on a combination of state appropriations, tax-exempt financing, and local resources to produce this housing. Additional federal support would help this program reach many very-low income families who might not otherwise be assisted.

The Authority's programs are delivered throughout the state in cooperation with nearly 50 private lending institutions and over 100 units of local government, and many non-profit agencies. This statewide delivery system assures that resources are delivered equitably to rural areas and it is an important resource for the delivery of future housing programs to rural areas.

Through State Housing Finance Agencies, there exists at the state level, in Maine as well as other states, a capacity to identify needs, package programs in a creative fashion; a capacity to target resources and to leverage resources to areas of greatest need; and a capacity to manage and implement housing programs for rural areas through the involvement and cooperation of the private sector, state agencies, local governments, as well as federal agencies.

This information is presented for background purposes so that you have some understanding of this particular state housing agency role and commitment to rural areas and it is within this context that my comments on future rural housing delivery programs are presented.

Rural Housing Need

The incidence of substandard housing in rural areas continues to be more than 3 times as great in rural areas as it is in urban (over 7 percent versus less than 2 percent). That means that between 8 and 10 million rural people live in inadequate housing. Most of Maine's 50,000 substandard housing units are located in rural areas of the state.

About 52% of occupied substandard rural housing is rented. This percentage has increased from about 44 percent in 1950. Most of this substandard rural rental housing is in structures of less than 5 units. Most renter-occupied housing in non-metropolitan areas - over 70% - is in structures of less than 5 units and this is the case in Maine as well.

Small rental properties characterize the rural rental housing market. There is a major need, largely ignored through traditional HUD and FmHA programs, to conserve and rehabilitate these properties. Small rural rental property owners in Maine have been very responsive to the Authority's Section 8 Existing Moderate Rehabilitation Program.

Since 1970, rural areas have been growing and the greatest percentage of growth is occurring in the smallest communities. This major demographic trend is placing increasing pressures on limited and often aged housing stocks in many rural communities.

The incidence of poverty continues to be significantly greater in rural areas than urban. In 1977, for example, 33% of the nation's population was non-metropolitan but 40% of the persons in poverty were rural. Most rural housing is owner-occupied, in many places by low-income elderly and families who cannot afford to maintain or rehabilitate their properties without government assistance.

In many small towns and rural areas there is a serious shortage of standard, suitable and affordable rental housing for the elderly, young couples and others. This problem is often paralleled by large numbers of large, old, energy inefficient homes, often occupied by the fixed-income elderly who find it increasingly difficult to maintain and meet operating costs on these homes. Many cannot leave their homes because there is no suitable alternative housing, no market for their large energy inefficient homes, and insufficient concentration of demand to attract a developer-manager to the market. Tax-exempt mortgage revenue bond financing made more workable through several clarifying amendments to the 1980 Mortgage Subsidy Bond Tax Act coupled with flexible federal funds would permit the cost-effective conversion of these properties to small owner-occupied rental structures.

Access to housing credit in rural areas is often on less favorable terms than in urban areas. Interest rates tend to be higher as do downpayment requirements and the term of loans are often shorter. Local financial institutions in rural areas make fewer home loans because of their size and need to supply a wide range of credit needs and the fact that many prospective rural homeowners simply cannot afford financing at conventional interest rates. The fact that many small and medium size financial institutions in rural areas lack access to secondary mortgage markets contributes to this problem.

Recommendations

There is considerable capacity among state housing finance agencies to administer rural housing programs, but there are many technical details associated with the development of such programs that require careful consideration.

1. Adequate Funding

   Any new rural housing block grant programs must be funded at adequate levels to address disproportionately severe housing problems in rural areas. The FY 82 funding levels for Farmers Home Administration programs should be retained. The federal government must not transfer responsibility for programs to states without also transferring the funds necessary to make programs work.

2. Tax-exempt Mortgage Revenue Bond Financing

   The ability of state housing finance agencies to issue tax-exempt mortgage revenue bonds is critical to the success of any form of rural housing block grant. State HFA tax-exempt financing leveraged with federal dollars offers the potential for highly creative and responsive local programs to address rural housing needs.

   HFAs have long standing relationships with private lenders through past loans to lenders and mortgagee purchase programs, and many HFAs are looking at ways to structure mortgage purchase conduit programs to give

small and median size lenders in rural areas competitive access to national secondary mortgage markets. Such programs will act to stimulate the availability of mortgage credit in rural areas on the same terms available in urban areas.

Congress must make workable the Mortgage Subsidy Bond Tax Act of 1980 as a prerequisite to any new rural housing programs. Beyond supporting changes to the Act to raise arbitrage levels to make bond issues self-supporting for single-family home purchase and improvement loans, the Congress should also pass corrective legislation to the MSBTA of 1980 that would facilitate the use of tax-exempt financing to rehabilitate and produce owner-occupied rental housing suitable for rural areas. The attached clarifying amendments would remove restrictions that place severe constraints on the use of tax-exempt financing for various types of small rental property financings. Secondly, Congress must reject the Administration's Industrial Revenue Bond Proposal which would prohibit Accelerated Depreciation on bond-financed rental units - this provision would effectively eliminate the use of rental housing bonds in both urban and rural areas.

3. Design of Rural Housing Block Grants

A. Rural Definition

- o The SMSA (Standard Metropolitan Statistical Area) concept does not provide a clear picture of what is rural, small town, etc. Many small towns and rural areas are located within SMSAs. For example, the Denver-Boulder, Colorado SMSA includes Gilpin County which is one of the most rural counties in the country with only nine persons per square mile.

B. Allocation Formulas

- o Distribution formulas should reflect variations in living costs and the age of housing. For example, in Maine heating costs represent a major share of housing expense for low-income families and it is reasonable to expect that formulas measuring the need for housing to adequately reflect the cost of securing and operating standard housing.

C. State Match

- o Any state matching fund provisions should apply on an aggregate three year basis to reflect development and bonding time cycles. State sources of matching funds should be flexible - similar to provisions in the Small Cities

Community Development Block Grant program.

D. Program Flexibility

- Eligible activities should be very flexible to tailor local programs to local needs. The use of funds to write down interest rates on tax-exempt financing should be specifically eligible.

- State-administered loan guarantee and insurance programs should be eligible where private mortgage insurance programs are not available.

- If contract authority is provided without long-term budget authority, rates of fund commitment should be prescribed but not expenditures and interest income should be eligible for re-use.

- Housing quality standards that rely on local codes are preferable to federal standards.

Conclusion

As you rethink the design of rural housing program delivery for the 80's, don't lose the opportunity to build on the success of state housing finance agencies. Their capacity to deliver programs to rural areas exists now. The requisite public/private partnerships and local government cooperation are in place. The capacity to leverage limited federal dollars with state raised capital to improve rural housing in a more cost-effective manner exists now. State administered housing programs make sense and offer the best potential for effectively leveraging federal dollars with other resources to meet local development objectives. This concludes my prepared remarks. I would be happy to answer questions at this time.

Clarifying Amendments to the Mortgage Subsidy Bond Tax Act of 1980 to Encourage Rural Housing Development

Various provisions of the Mortgage Subsidy Bond Tax Act of 1980 have had substantial (and probably unintended) impacts on the ability to finance small rental properties which are the predominate form of rental housing in rural areas.

A series of clarifying amendments have been drafted (attached) to achieve the following narrow objectives:

Single-Family Qualified Improvement and Rehabilitation Loans

a. To permit financing of 1-4 unit owner-occupied property conversions and additions. Current single-family home improvement and rehabilitation loan provisions appear to prohibit making loans to owners (particularly elderly) of large, energy inefficient homes for purposes of converting the homes into 1-4 unit, owner-occupied rental properties. The first occupied-five years before loan execution provision appears to prohibit such financings. While the home may meet the first-occupied-five year test, the 1-3 rental units that would be created do not. This is also true of loans made to owner-occupants for purposes of adding 1-3 rental units within the 1-4 unit overall limitation.

b. The dollar limits for home improvement loans ($15,000 regardless of the number of units) should be expanded to include 1-4 unit properties within FHA Title I dollar amount limitations.

Single-Family Home Purchase

To permit financing of 1-4 unit, owner-occupied property conversions. This amendment would remove the first-occupied-five year test on 1-4 unit purchase transactions where existing properties (residential, commercial, publicly-owned) are rehabilitated (acquisition/rehabilitation/conversion) and converted into 1-4 unit, owner-occupied residences for first time home buyers.

Rental Development and Rehabilitation

a. Remove the 20% Section 8 eligible requirement on properties of less than 11 units (HUD's revised Section 220(d)(3)(a) mortgage insurance program will provide coverage up to 11 units - single-family processing with possible option to carry out under the single-family Section 244 co-insurance program).

b. An amendment (clarifying or otherwise) that would permit an owner-manager's unit in financings involving more than 5 plus units. Federal multi-family mortgage insurance programs (221(d) 3 and 4 and 231) permit an owner/resident manager unit without regard to the number of total units in a project, subject to economic feasibility.

In general, these recommended amendments would facilitate the development or conservation of affordable small rental unit projects, particularly in rural areas. They would also act to provide alternative housing (group, shared-living, small congregate, etc.) for the fixed-income elderly while helping existing, fixed-income elderly homeowners meet rising operating costs.

Small, often owner-occupied, rental projects comprise the majority of all rental units nationally, and particulary in largely rural states. In fact, this is also the case in many large cities. For example, the Department of Housing and Urban Development's Annual Housing Survey for 1975 shows that 61.3% of all renter-occupied housing was in structures of less than 5 units. In non-metropolitan areas, 78.9% of renter-occupied housing was in structures of less than 5 units. In many large cities such as Chicago, 68% of all rental units are in 1-10 unit buildings. In the state of Maine, over 88% of renter-occupied housing is in structures of less than 10 units and over 73% in structures of less than 4 units.

The vast majority of substandard housing in rural areas is also found in small rental buildings. Approximately 1.9 million rural families still live in housing that is a hazard to health and safety. About 52% of occupied substandard rural housing is rented. This percentage has increased from about 44 percent in 1950. Over 75% o. this substandard rural rental housing is found in buildings of less than 5 units.

In many states, there is a serious lack of standard, suitable and affordable rental housing in small towns and rural areas for the elderly, young couples, and others. This problem is often paralleled by a large number of large, old, energy-inefficient single-family homes, often owner-occupied by fixed-income elderly households. Many of these elderly owners on fixed incomes own their homes free and clear but find it increasingly difficult to meet operating costs. Many cannot leave these homes because there is no alternative housing, no market for their large energy-inefficient homes, and insufficient concentration of demand to attract a developer-manager to the market.

Tax-exempt loans used to help these owners convert their properties into energy efficient and structurally sound 1-4 unit owner-occupied rental properties would produce affordable rental units on a scale compatible with local housing in small towns, and provide a source of supplemental income for owners while also allowing existing owners to remain in their homes. The fact that most of these homes carry no or little existing indebtedness makes possible more affordable rent levels because acquisition costs do not have to be amortized to the extent otherwise necessary.

PROPOSED AMENDMENTS TO THE
MORTGAGE SUBSIDY BOND TAX ACT OF 1980

Section 103A(1)(9) of the Int< nal Revenue Code of 1954 is amended to read as follows:

"(9) SINGLE-FAMILY AND OWNER-OCCUPIED RESIDENCES INCLUDE CERTAIN RESIDENCES WITH 2 TO 4 UNITS ---Except for purposes of subsection (g) and (h)(2), the terms "single-family" and "owner-occupied", when used with respect to residences, include 2, 3, or 4 family residences one unit of which is occupied by the owner of the units."

Section 2. Section 103A (1)(6) of the Internal Revenue Code of 1954 is amended to read as follows:

"Qualified Home Improvement Loan The term 'qualified home improvement loan' means the financing (in an amount which does not exceed the maximum loan allowable for such property under Title I of the National Housing Act of 1949 as amended)

(A) of alterations, repairs, and improvements on or in connection with an existing residence by the owner thereof, but

(B) only of such items as substantially protect or improve the basic livability of energy efficiency of the property."

Section 3. Section 103(b)(4)(A) of the Internal Revenue Code of 1954 is amended to read as follows:

"(A) projects for residential rental property (including the refinancing of any existing lien in connection with a Qualified Rental Property Rehabilitation Loan) if each obligation issued pursuant to the issue is in registered form and, in the case of any project containing more than 10 units, if -

(i) 15 percent or more in the case of targeted area projects, or

(ii) 20 percent or more in the case of any other project,

of the units in each project are to be occupied by individuals of low or moderate income (within the meaning of section 167(k)(3)(B)) for the term of any loan with respect to such project.

For the purposes of this subparagraph, residential rental property includes any residential rental property, other than 2, 3 or 4 family residences, one unit of which is occupied by the owner of the units as defined in Section 103A(1)(9), whether or not such property is occupied by the owner of such property.

"For purposes of this subparagraph, the term 'Qualified Rental Property Rehabilitation Loan' means financing provided in connection with -

(i) a Qualified Rental Property Rehabilitation, or

(ii) the acquisition of rental property with respect to which there has been a Qualified Rental Property Rehabilitation, but only if the mortgagor to whom such financing is provided is the first user of the rental property after the completion of the rehabilitation.

For purposes of subparagraph (A), the term 'Qualified Rental Property Rehabilitation' means 'Qualified Rehabilitation' (within the meaning of Section 103(A)(1)(7)(B)."

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MAINE-ONE HUNDRED AND SIXTY YEARS OF GROWTH AND CHANGE

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Agricultural and Resource Economics

April 1, 1980 was an important day for Maine. It was on that day that Uncle Sam's census counters confirmed that Maine, after decades of slow growth, had attained an above average rate of population gain for the 1970-1980 decade. The census count for Maine was 1,124,600, an increase of 13.2% in the decade. The comparable rate of gain for the United States was 10.8%. The 1970-1980 decade was the first time in more than 100 years that Maine's rate of population growth was greater than that for the nation as a whole.

A significant gain or loss in a state's population base can have important consequences. For example, the level of federal support provided for a number of important economic and social functions hinges on changes in population numbers. Among the programs or entities whose support can vary with population changes are the highway trust fund, regional development agencies, the Maine Extension Association, and the Maine Life Sciences and Agricultural Experiment Station. Many business and human service related decisions are made in relation to population growth and decline in an area.

Perhaps the event of most immediate consequence which is related to Maine's change in population is the need to redraw the lines for the state's two Congressional districts. This topic will be dealt with in a later section of the article.

While shifts in population numbers have important consequences, significant changes in the composition and distribution of the population of a state or subarea also can affect vitally the lives of all of its residents. Thus in this article we will analyze some of the more important, recent demographic events in Maine both numerically and qualitatively. The primary sources for this review will be the 1980 Census, Maine vital statistics, and data from migration research projects being conducted by the Maine Life Sciences and Agricultural Experiment Station. At the end of the article reference will be made to the availability of relevant reference sources.

Several important demographically related themes will be highlighted in the following sections. Among them are: a) that although decennial population change in Maine has been, with the exception of the 1860-1970 period, one of growth, there have been several significant oscillations or swings; b) that migration, both into and out of Maine, has been an important factor in our growth patterns; c) that not only has recent migration to Maine been a factor in the 1970-1980 population increase but also the recent waves of inmigration are responsible for significant changes in the composition of the population of the state.

Population Change in Perspective

Maine was an early frontier for colonial America. It was easier for those seeking a new environment to move north by water to New Hampshire and Maine than it was to go west by then available overland means. But in the 170 years of settlement from the time of the Pilgrims in 1620 to the first federal census in 1790 Maine's population totaled less than 100,000. The 1790 census count was 96,540. Most of Maine's residents were in the southwestern corner of the state --closest to Massachusetts and the rest of colonial America.

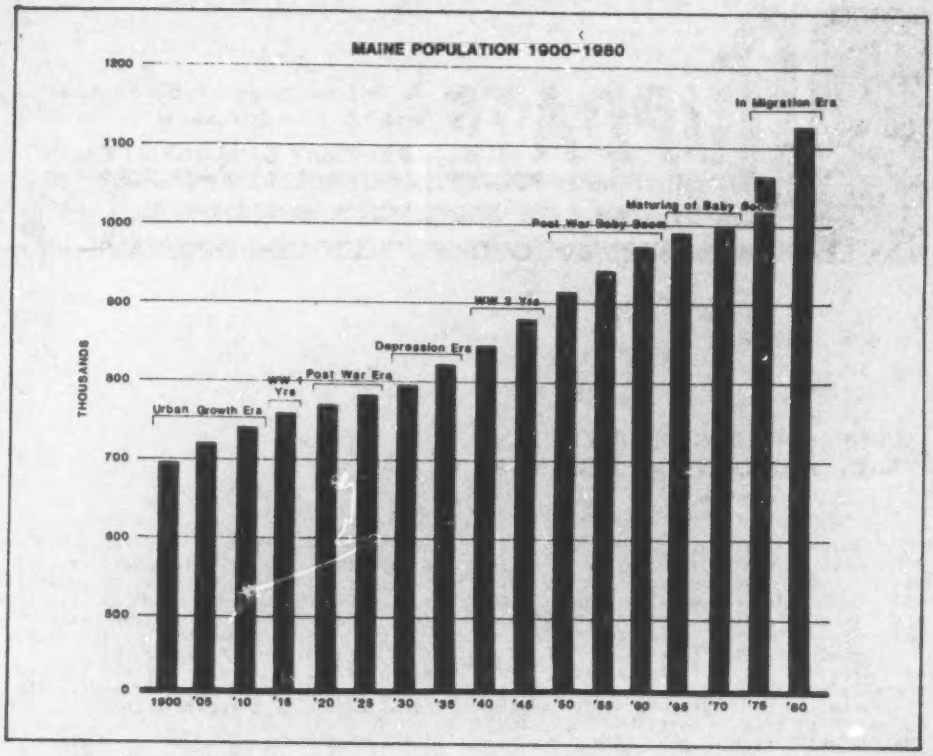


Figure 1

For the next 50 to 60 years Maine's population grew rapidly, as rapidly as the rest of the expanding nation. By 1820, and statehood, the territory of Maine had increased its population to just over three times the total for 1790. During this remarkable growth surge, Maine's population exceeded that of Connecticut as well as New Hampshire, each of which had been larger than Maine in 1790. This early period of rapid growth was followed by another 30 years of population increase and consequent movement of people to the eastern and northern sections of the state. In the 30 year period from statehood to 1850, Maine's population had almost doubled to 583,000. An average of nearly 100,000 persons had been added to the state's population base during each of the ten year periods from 1820 to 1850.

A large proportion of this rapid increase was directly related to high rates of inmigration and low rates of outmigration. As Maine's late agricultural historian, Clarence Day, noted, however, outmigration was not unknown in Maine prior to 1850. In fact, the abandonment of farms and the migration of rural people to the verdant fields and pastures of the near mid-west became an issue in Maine in the 1830s. The Maine legislature, presaging the federal Congresses of the 1930s, passed crop subsidy bills which were aimed at retarding the outward flow of Maine population, particularly farmers and potential farmers.

Between 1850 and 1860, the rate of population growth in Maine decreased from 10 year average gains of almost 100,000 during the 1820 to 1850 period, to a gain of 45,000, an approximate 50% decrease. But the 1860-1870 decade proved to be even more unsettling to those Mainers who believed that population increase was necessary for an expanding, progressive economy.

Instead of posting the customary gain, Maine's population in 1870 was approximately 1,400 less than in 1860. The Civil War was no doubt a major factor in this growth turnaround. Soldiers and sailors were attracted to areas which they had seen firsthand. Other persons, particularly young unmarried women, were attracted to southern New England and

other parts of the East. The major source of attraction was the increasing employment opportunities in textile manufacturing and in other industries which were, at least in part, stimulated by the war between the states.

A review of census reports and/or the Maine Register reveals that while, overall, Maine's population grew relatively slowly between 1850-1900, this era was also a period of mixed population growth and decline. It was during this period that Maine's industrial cities began to grow rapidly. The relationship between population growth and industrial expansion is well illustrated by the experiences of Auburn, Biddeford and Lewiston. Between 1850 and 1900, Biddeford's population increased by almost three times; during the same period Auburn's and Lewiston's population increased, respectively, by approximately four and five times. Conversely, the more commercially based cities of Portland and particularly, Bangor lagged in population growth. Between 1850 and 1900 Portland's population little more than doubled; Bangor's population increased by just 50%.

It was the rural areas, however, which primarily reflected the downward shift in population growth. The great majority of Maine rural towns experienced population decreases between 1850 and 1900. For many, their 1900 populations were just two-thirds to one-half what they had been in 1850. Many persons had left for cities or industrial villages both in Maine and elsewhere. Conversely, few people were moving into these rural towns with declining populations. And the rate of inmigration to Maine also decreased dramatically for much the same reasons people were leaving Maine--for better opportunities further westward.

In general, most nonsuburban rural towns continued to lose population to about the post World War II period. Indeed, many of the nonsuburban rural towns excluding those in Aroostook County, had 1950 populations approximately a third or even a quarter of their 1850 populations. Thus when it became popular in the late 1960s for urban and semi-urban residents to seek a rural location, these sparsely populated towns proved to be attractive locations for many people.

From the mid or late 1800s to the late 1960s Maine's population growth and consequently, its composition was dominated by internal population dynamics--the surplus of births over deaths and, as noted, outmigration. It is thus worthwhile to review briefly a few vital statistics for Maine for the period following 1900.

Vital Statistics

As indicated in Figure 1, during the 1900-1980 period Maine's population increased by approximately 400,000 persons; a 60 percent increase. Falling birth rates were a major factor in keeping Maine's population growth at moderate levels. And although the 1979 birth rate of 14.8 births per 1,000 population was just about two-thirds the 1900 rate of 20.3, the rate of decrease was not in a straight-line, downward direction.

Birth rates in Maine remained relatively high and steady from 1900 through 1945. During this period, birth rates fluctuated between 19 and 23 per 1000. The 1945 rate was 18.9. Then, in post World War II 1946 it increased to 23.0. For the next 18 years Maine birth rates did not fall below 21.4 births per 1000 population. The peak birth rate was 26.7 in 1947, This was the period in recent American history that has been tagged the "baby boom" era.

The effects of the relatively high birth rates of the baby boom era were compounded by a drop in death rates. In 1900 Maine's death rate was 16.4 per 1,000 population. Combined with a birth rate of 20.3 per 1,000 population, natural increase was just 3.9 per 1,000 population. During the 1946-1964 high birth rate era, the death rate fluctuated from 11.4 to 10.6. Compared to the natural increase in 1900 of 3.9, the rate of natural increase was 15.5 in 1947. By the end of the high birth rate period in 1964, the rate of natural increase was still relatively high at 10.4 per 1,000 population.

Ironically, Maine's population did not spurt during the 1946-1964 period despite the relatively high rates of natural increase. The combination of high rates of outmigration and low rates of inmigration offset the high rates of natural increase. The 1960s, and particularly the last five years, was a period of low population growth. During the 1965-1970 period, except for the Civil War period Maine experienced the lowest rate of growth for any five year period in its history. Thus the turnaround in population growth noted for the 1970s is all the more remarkable.

During the 1970-1975 period, 65,000 persons were added to Maine's population --the greatest numerical increase for any 5 year period in Maine's history. The increase recorded between 1975 and 1980 was almost as great: 62,000. The population increase of 127,000 during the 1970s was equivalent to the increase of Maine residents for the preceding 25 years--the period dominated by high birth rates and low death rates.

The interplay between births, deaths and migration can be noted in the increase of population for the 1970-80 period. For example, from 1970 through 1979 there were approximately 162,000 births in

Maine and 106,000 deaths. Thus there was a natural increase of 56,000. But the actual increase for the decade was 127,000 persons. The difference between the two totals, over 70,000, must be attributed to a positive net inmigration--more people moving to Maine than leaving it. Details on the composition of the inmigrant streams to Maine will be presented below.

Parenthetically, it should be noted that while the overall death rate in Maine was cut by approximately 50 percent during the 1900-1979 period, perhaps the most remarkable non-migration demographic event of the times was the dramatic decrease in the rate of infant mortality. In 1900 the death rate for infants per 1,000 live births was a near calamitous 267.5. Modern medical practices, the shift of births from homes to hospitals, and the skill and dedication of medical personnel reduced the infant death rate to 9.7 in 1979--just about four percent of the rate in 1900.

Maine and the 1980 Census

To date the U.S. Bureau of the Census has released just a few final reports from the 1980 Census for Maine. Sufficient data have been made public to confirm that in the 1970s Maine's population grew at a rate greater than for any decennial census period since 1840-1850. The 127,000 increase in population was the greatest numerical population gain for any decennial census period. Census data also confirm that significant changes are occuring in both the composition and distribution of the state's population.

During the 1970-1980 decade there was a 13.2% increase in population. The rate of increase for the United States was in proportional terms 10.8%; approximately three-fourths the rate of increase attained by Maine. Among northern states east of Colorado, Maine had the third highest rate of increase. New Hampshire (24.6% increase) and Vermont (15.0% increase), both of which are experiencing industrial growth, were first and second in rates of population increase among northern states. The three northern New England states present an interesting contrast to the rest of the states in the Northeast and Midwest which, generally, experienced slow rates of growth by national standards for the 1970-1980 period. The three southern New England states had a 1970-1980 average population growth rate of 1.3%; the three middle Atlantic states had an average loss of 1.4%.

Figure 2 depicts population change in Maine for the 1970-1980 period. Several trends are discernable. There tends to be a clustering of rapidly growing towns (those with ten year increases of one-third or more) along the combined Maine Turnpike/Interstate 95 corridor--the traditional area of population concentration in the state. All of Maine's major cities, those with populations of 20,000 or more, and most of the cities and towns with populations between 10,000 and 20,000 are located along this pathway.

But, while much of Maine's population growth was more or less adjacent to the Maine Turnpike/I-95 route, the larger cities did not share in this growth pattern. All of the six cities with 20,000 or more residents in 1980 experienced population loss during the 1970-1980 decade. In all cases however, the degree of loss was minor, ranging from 0.6% in Augusta to 5.4% in Portland.

It is deceiving, when one is assessing urban growth patterns to make judgements based upon statistics for only the urban centers. For many decades, and particularly since World War II, American cities tend to exist beyond their legal boundaries. In terms of economic and social reality, cities are constituted of both their own populations and those of nearby towns (the suburbs) which are integrated with them in many significant ways. Suburbia, which has dominated most of urban America for decades, came to Maine in full force during the 1970s.

Close observation of Figure 2 reveals that not only are the towns contiguous to cities growing, but also those that are one or two "rings" out from the city are increasing their populations at even more rapid rates. It might be concluded from these statistics, that Maine cities, while maintaining their own territorial integrity and municipal functions are becoming "larger communities" in the geographic, social, and economic connotations of the term.

Those towns which lost population during the 1970s, with a few exceptions, tend to be concentrated in one of two categories. Either they are cities or towns of 8,000 or more residents, or they are very small, quite isolated towns. These tendencies appear to be part of a larger trend of population centralization and concentration in Maine.

Another facet of population change revealed in the 1980 Census for Maine is the trend for greater population growth in the southern and southwestern sections of the state. The high rate of population gain in southern and southwestern Maine is offset by the lesser gains and/or losses in the north, particularly in Aroostook County. This trend is highlighted by the 24 Aroostook cities and towns which experienced population loss in the decade of the 1970s. Another concentration of "loss" towns is located along the northern perimeter of settlement on a more or less westward line which begins in the northern Penobscot, southern Aroostook area.

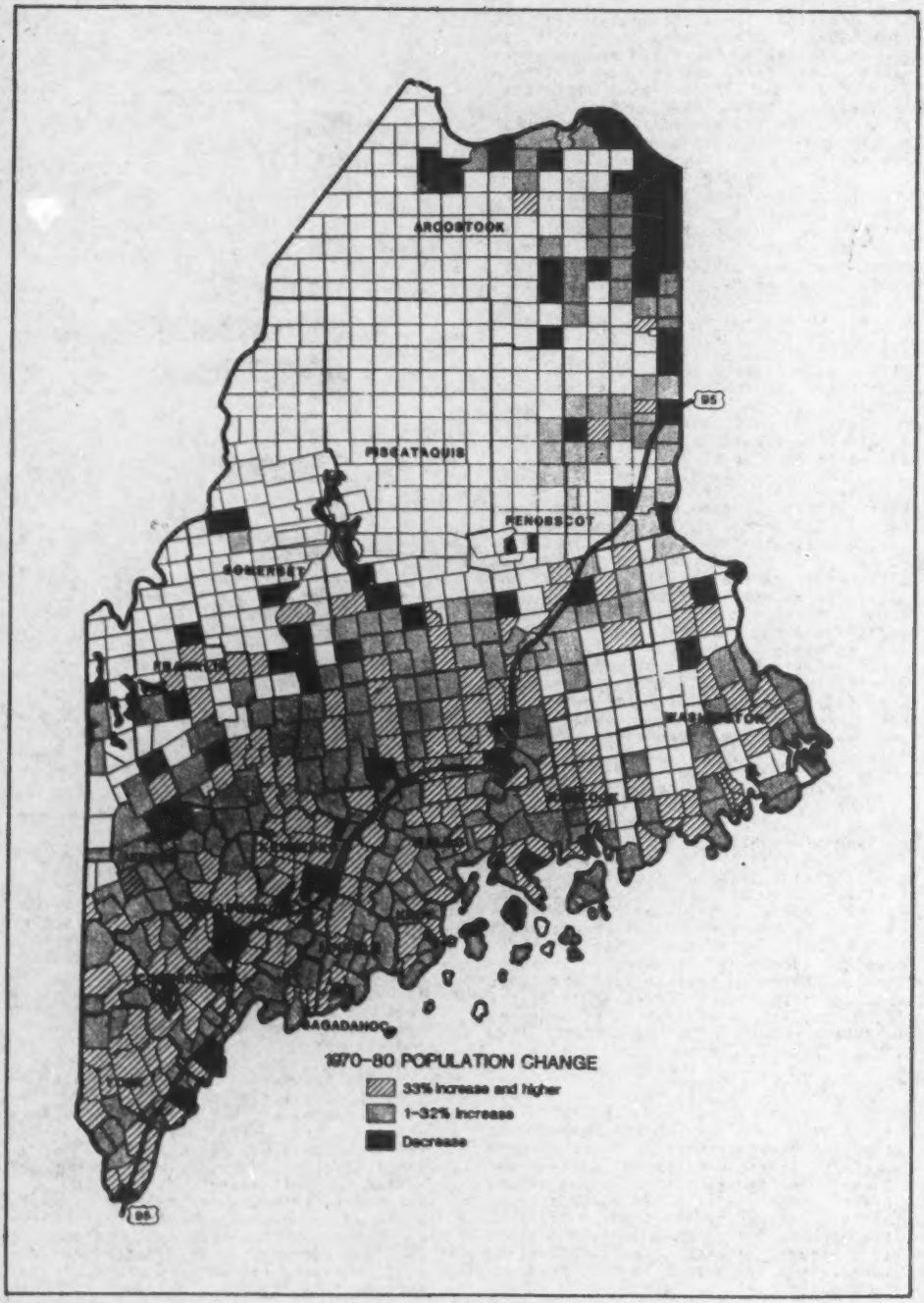

ARGOSTOOK
PISCATAQUIS
PENOBSCOT
SOMERSET
FRANKLIN
WASHINGTON
HANCOCK
SAGADAHOC
95
95
1970–80 POPULATION CHANGE
33% Increase and higher
1–32% Increase
Decrease

Figure 2

One significant consequence of the continuing concentration of population growth in the southern and southwestern sections of Maine may be the redistricting of our two congressional districts, (Figure 3). Between 1970 and 1980, counties comprising District I (southern) had a total gain of 85,445 persons (17.2% increase); District II (northern) had a total gain of 45,493 persons (9.1% increase). The state legislature is mandated to keep the population of the two districts as nearly even as possible. At the time of the 1970 Census, District II (Aroostook, Washington, Hancock, Penobscot, Piscataquis, Somerset, Franklin, Oxford and Androscoggin Counties) contained approximately 2,200 more persons that did District I. District I presently consists of Waldo, Knox, Lincoln, Sagadahoc, Kennebec, Cumberland and York Counties. Of these seven counties, only Cumberland, the county with the largest population in 1980 (215,789), experienced a 1970-1980 population increase less than the state average of 13.2%.

By April 1 of 1980 the southward shift of Maine's population had increased the 2,200 person imbalance between the two congressional districts to 32,000 in favor of District I. While the population difference between the two congressional districts amounts to less than three percent of Maine's total 1980 population the legislature may decide it is large enough for redistricting to take place. Whatever solution the legislature (or the courts if there is a legislative impasse) sees fit to make, it will reflect the recent surge in population growth in the southwestern and southern sections of the state.

Concurrent with the more rapid population growth in southern than in northern Maine is the consequent gain in population of counties with coastal frontage. All five of the state's most rapidly growing counties front on the Atlantic ocean. At least in part, the relatively rapid growth of the coastal counties is related to the preferences of many of the inmigrants to Maine for coastal locations. Studies of inmigration to Maine employing 1975 and 1980 samples of inmigrants reveal that the coast and its attendant environmental amenities serve as important magnets which attract new residents.

Recent Migration History

As indicated earlier, the 1960-1970 decade was a period of low population growth in Maine. Very low rates of population increase were particularly prevalent during the last five years of the decade. From 1965 to 1970 Maine's population increased by about 4,100 persons. In contrast, during the same period there was a natural increase (excess of births over deaths) of nearly 37,000 persons. The imbalance of approximately 33,000 is

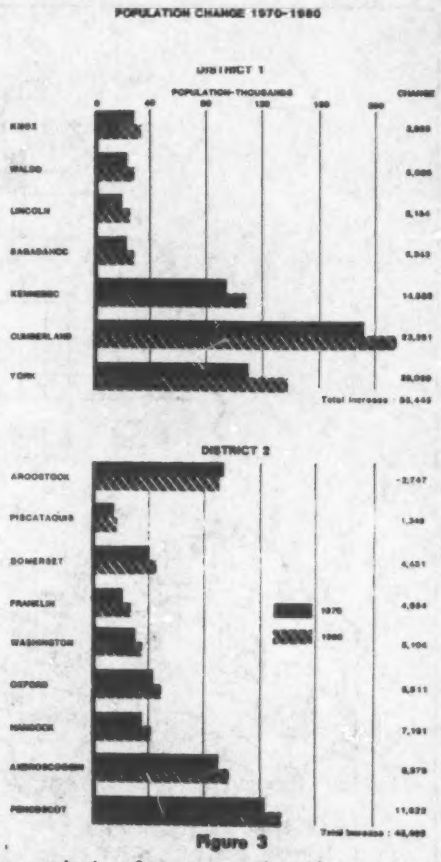
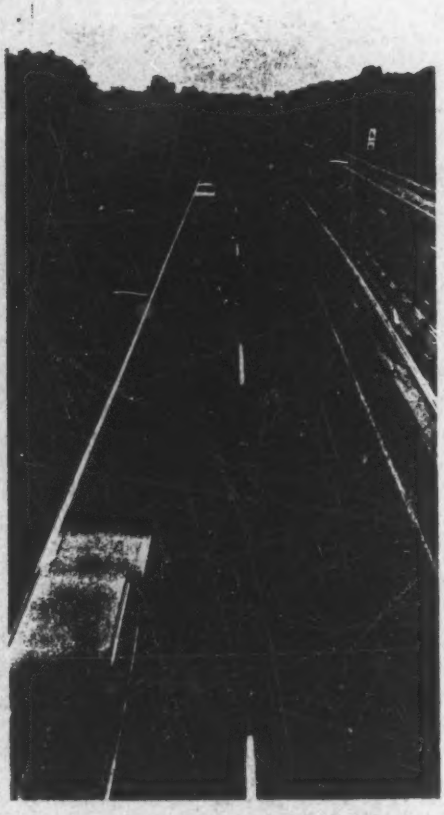


Figure 3

a product of net outmigration -- more persons leaving Maine than migrating to it. Thus the population increase of approximately 127,000 Maine residents between 1970 and 1980 is quite remarkable. If natural increase had been the only factor the gain in population between 1970 and 1980 would have been about 56,000 rather than 127,000. For this period the imbalance between the two rates of gain can be accounted for by net inmigration.

The dramatic recent increase in Maine's population (as well as even larger increases in New Hampshire and Vermont) is especially interesting for the 1970s was also the period of vast migrations of people and industries to the so-called Sun Belt states. Much of the population gain in the Sun Belt has been attributed to northeasterners seeking employment opportunities in the expanding Sun Belt economy. But despite the general net outmigration from states in the Northeast in the 1970-1980 decade, the



Easy access to Maine by good highways from southern New England brings in tourists and vacationers, many of whom become permanent residents.

three most northern New England states experienced, as compared to recent decades, unprecedented population growth.

There is no single, simple, answer why this counter population phenomenon occurred. But the counter movement of populations--migration to both the south and to northern New England-- is consistent with a general theory of migration postulated more than 100 years ago by the European demographer E. G. Ravenstein. One of Ravenstein's hypotheses was that for every current of migration there is a counter current. If a wave of people is moving west, a counter wave will relocate in an eastward direction; if there is an urbanward migration movement there will be a compensating trend to rural areas. Over the years demographers have demonstrated that, with some exceptions, Ravenstein's postulates are generally correct.

An implication of Ravenstein's work is that migration tends to serve as a kind of social safety valve--like water, migrants tend to seek their natural level. Migration tends to be a method by which people attempt to improve themselves economically and socially. Generally, long distance migration has been associated primarily with attempts to satisfy economic needs and/or ambitions. At least part of the recent migration by northeasterners to the Sun Belt has been economically motivated. But, increasingly in the United States, at least a minimal satisfactory level of living can be attained by employable persons in almost all sections of the country.

It has become possible for persons seeking an area which meets their quality-of-life expectations to move with relative ease. Thus the 1970-1980 decade was a period during which many urban persons forsook large cities and metropolitan areas for residences in smaller places. The 1970s proved to be the first decennial period in which growth rates of rural (non metropolitan) areas exceeded those of urban (metropolitan) areas.

Maine, New Hampshire, and Vermont have been beneficiaries of this new wave of inmigrants. As indicated, Maine experienced a net migration of some 71,000 persons during the 1970-1980 period. As important as the numerical increase has been, in the long run the composition of the inmigrant stream may be of greater importance. Our studies of 1975 and 1980 samples of adult migrants to Maine indicate that the newcomers tend to differ significantly from native and long term residents on several socioeconomic variables. Although we have only very limited data on outmigration from Maine, it appears likely that the inmigrants also differ in a number of ways from the outmigrants.

The Inmigrants

In 1976, the author, utilizing driver's license application data, determined that approximately 36,000 persons had moved to Maine in 1975. With a natural increase of about 5,000 for the year, one might have forecast that the population of the state would have increased by approximately 41,000 persons. The recorded increase was about 12,000 persons. Apparently there was a net outmigration of about 29,000 for the year.

At the time of the study, many persons familiar with both Maine's demographic history and the forces which were drawing approximately 30,000 persons per year from the state concluded that the relatively large balance of inmigration over outmigration was a temporary phenomenon. Surprisingly, when the 1976 methodology was repeated for a sample of 1980 inmigrants the results were comparable. Again the data indicated that about

36,000 persons had moved to Maine in one year. Natural increase for the year was up somewhat over 1975 so that the rate of growth for 1980 should at least equal that for 1975 if outmigration rates remained more or less constant. What limited evidence we have, again from driver's license data, indicates that the rate of outmigration is no more, and maybe a little less, than it was five years previously. It appears, then, that the magnitude of the population increase in Maine for the 1970s is continuing into the early 1980s.

With inmigration and population growth holding at approximately the 1970s level, one can ask if the composition of Maine's population is changing as a result of the balance between in and outmigration. The tentative answer to the question is at least a qualified "yes". A main conclusion from our study of the 1975 inmigrants was that they tended to vary from native and long time Mainers on a number of socioeconomic variables.

A summary of the 1975 inmigrants reveals that:

Families were young.	Three-quarters of the household heads were under age 50. Just 7% of the household heads were 65 and older.
Families were small with few children.	There were no children under five in 77% of the households; there were no children ages 5-17 (school age) in two-thirds of the households.
Adult inmigrants were highly educated.	Two-thirds of the inmigrant household heads had some college. Over two-fifths had 16 or more years of schooling.
Inmigrants were largely from urban areas.	Nearly one-half of the households moved to Maine from counties with populations of 500,000 or more.
Inmigrants were largely from the Northeast.	Approximately 45% of the households came from New England; 24% came from the Middle Atlantic States. Thus two-thirds were from the Northeast.
Occupationally the inmigrant heads of households were concentrated in the professions and managerial/administrative positions.	Over half of the household heads in the labor force in 1975 were in the professions or in managerial or administrative positions.
The inmigrants were primarily new residents and were not former Mainers returning home.	Just 18% of the inmigrant household heads were born in Maine. Less than one-quarter had ever previously lived in Maine, including summer residence.
A large proportion of the inmigrants took a reduction in income to live and/or work in Maine.	Approximately 45% of the inmigrant household heads reported that their 1976 income was less than before their move to Maine.

Just as there is little difference in the number of persons migrating to Maine in 1975 and 1980, there was relatively little difference between our two samples of respondents by social/demographic characteristics. The proportion of persons who were under 50 was a little larger in the 1980 sample than in the 1975 one. Conversely, the proportion of persons 65 and over was slightly less in the more recent sample. Overall, however, the differences in the age distribution for the two samples were minor. Thus Maine's population is not "aging", as some had thought, as a direct result of inmigration. However, because outmigrants from Maine tend to be very young adults, there could be a tendency for the average age of Maine's adult population to rise slightly. Without the compensating effect of relatively young inmigrants there would be a considerably more rapid rise in the average age of Maine adults.

There is at least one important reason for a state or subarea to maintain a relatively young adult population. Expanding industries tend to look favorably upon the availability of a young, and preferably, trained, educated labor force.

As were their 1975 counterparts, the 1980 inmigrants had attained a relatively high level of formal education. As in 1975, approximately two-thirds of our respondents had one or more years of college education. Just under two of five of the respondents had completed four or more years of college level training.

Thus, over the ten year period of the 1970s a pool of well educated, and in many cases, well trained persons were moving to Maine. Such a situation should bode well for the expansion of the professions as well as for industries which utilize educated, trained persons. But there is a cloud on the horizon.

There is evidence in the replies of a number of the 1980 respondents that they are not satisfied with the employment situation in Maine. The complaint was most often heard from college educated or professional school graduates. These persons hold, or are qualified to hold, positions as nurses and other allied health workers, school teachers, psychologists, human service workers, and middle level white collar workers. The complaints are two-fold: lack of jobs per se and, compared to other states, low levels of compensation. Dissatisfaction

with their jobs and/or employment possibilities was a leading reason which the respondents gave for either not liking Maine and/or why they might leave the state in the near future.

As in 1975, not only were the inmigrants relatively young, but also their families were relatively small. There was a total of 2,895 persons in the 1,132 households for which we have household composition data. Thus each household consisted of about 2.5 persons, about the same as the average reported for Maine in the 1980 Census. Perhaps more important than size of households per se, is their age distribution. Just six percent of the respondents were aged 65 or older; in just 10 percent of the households were there any persons 65 or over. The paucity of older persons among the inmigrants is related in part to the fact that there are relatively few older Maine-born persons who are returning to their native state. Just over a fifth of the respondents, and a slightly higher proportion of their spouses, were born in Maine. Thus, in general, it can be concluded that for the 1980 sample, as for the 1975 sample, Maine tends to attract inmigrants who are relatively young and not native to the state.

One might suspect that because the adults moving to Maine were relatively young, that they would have quite large, young families. This was not the case either in 1975 or 1980. Perhaps surprisingly, over a quarter of the respondents came to Maine as single person households. And in the multiple-person households there were relatively few children. For the 1980 sample, there were children under five in less than 20 percent of the households. There were children 5-17 in approximately one-third of the 1980 inmigrant households. The average number of school age children per household was slightly less than 0.6. Thus, except for a few possible localized situations, the age distribution of the inmigrant households will not be a burden on community school systems. On the other hand, the relatively large number of well educated and/or trained persons could be an asset for an expanding economy.

The tendency, as noted in the 1975 data, for inmigrants to Maine to originate in large urban areas and to settle in smaller communities continued for the 1980 sample. There were, however, some differences. Somewhat fewer of the inmigrants moved to Maine from either the other New England or the Mid-Atlantic states. It would appear then that Maine's population base is not only expanding by the increase of persons with more years of formal education, but also by the addition of persons with broad and diverse cultural experiences.

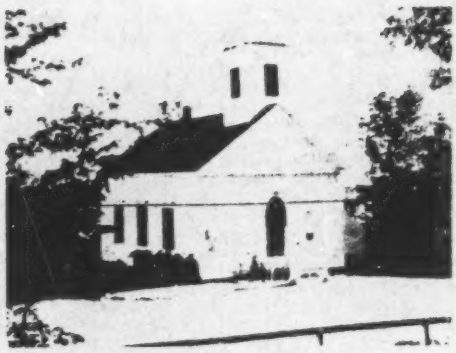
There was a definite tendency for the 1975 respondents to locate in smaller Maine towns. That tendency decreased somewhat for the 1980 respondents. Thirty-nine percent of the 1975 inmigrants established residences in towns of less than 2,500 population. Of the 1980 sample, 27% became residents of towns of less than 2,500 population. In contrast, there was a trend for the 1980 sample persons to move to Maine's largest cities --those with populations of 30,000 or more.

Portland was the most favored location for city-bound inmigrants. Generally they were most happy with their choice. They found Portland's relatively small size (as compared to the large metropolitan areas they had left) to be a pleasing compromise. A number of inmigrants to Portland were also pleased with its social and cultural amenities.

To date, we have not analyzed the occupational data for the 1980 sample in detail. It is evident, however, that, as was the case for the 1975 sample, recent migrants to Maine have training and/or experience in professional, administrative, and other white collar occupations in larger proportions than does the general populace. To determine what types of occupationally-related skills or training they possessed, the 1980 sample of respondents was asked to reply to a number of skill-related questions. The results from the total sample of 1,139 respondents for specific skill or occupational areas were:

Skill or Occupation	Number of 1,139 respondents who had a specified skill, or training in an occupation
Teaching (elementary, secondary, college)	226
Skilled Building Trades (carpentry, electrical, plumbing, etc.)	164
Allied Health Skills (nurse, dental assistant, etc.)	140
Visual Artist, Actor, Musician, Writer	104
Automotive Trades, Skills	97
Financial Manager, Accountant	68
Social Service Administrator, Social Worker	66
Machinist, Lathe Operator	58
Physician, Dentist, Health Scientist	37
Natural, Physical Scientist	35
Farmer	29

In many cases, respondents reported having several skills or occupational qualifications. Also, in many cases, the respondents were not employed in those areas for which they are qualified. In brief, the inmigrants tend to represent a pool of persons with largely untapped occupational skills and qualifications. As such they represent an asset which, presumably, will be of value to Maine as the population and, hopefully, the economy expand .



For many newcomers to northern New England, whether or not they are formally religious, the values inherent in the simply styled rural church serve as an incentive for inmigration.

As implied earlier, a major motivation for many long distance or interstate migrants is an attempt to better one's economic position. This was the case for the high levels of outmigration from Maine rural areas from the mid-1800s forward. The building of most major American cities can be attributed to migrants arriving to take advantage of expanding employment opportunities. Counter to this trend, the major thrust of migration from metropolitan to nonmetropolitan areas in the 1970s was more quality-of-life than economically oriented. Apparently Maine fulfilled the image of the better life for a large proportion of our recent inmigrants. Sixty-two percent of the 1980 inmigrant sample indicated that their move to Maine was not "primarily" for job-related reasons. Of those whose move to Maine was primarily job related, just nine percent came to look for a job. Just 14 percent who came to Maine for job related reasons did so because the move was required by their employer, military or non military.

It can be concluded that Maine continues to be a place which people come to voluntarily because it meets their non-economic needs and wishes. Forty-five percent of the 1975 sample respondents reported that their current income was less than it had been before their move to Maine; for the 1980 sample the comparable figure rose to 50%. In contrast, just 9% of the 1980 respondents reported that their incomes were now much higher than before their move to Maine. In a sense, these results are a challenge to the people of Maine to keep it socially and environmentally attractive enough so that is continues to attract persons who have the abilities and the motivations to make positive contributions.

Despite their relatively short residencies in Maine, for most persons less than a full year, 63% of those responding reported that at least one member of their family had joined, or planned to join, organizations in Maine. And 56 percent of the respondents reported that some member of their family had bought, or planned to buy a fishing and/or hunting license. It would appear that the inmigrants are becoming part of the social and cultural structure of Maine.

A series of four questions was asked of the respondents in the 1980 study to gap their attitudes about living in Maine The questions, as stated on the mailed questionnaire were: Other than employment, what attracted (pulled) you to Maine? What is it that you now especially like about Maine? What do you now especially dislike about Maine? If you do not expect to live in Maine permanently, for what reasons might you leave?

The number of responses, by categories, to these questions is presented in Table 1. The use of just nine categories made it necessary to place a wide variety of responses into a given category. In a forthcoming, second categorization of the data, a greater number of categories will be utilized which will permit more detailed analysis of the questions. For this analysis, the general parameters for each of the categories were:

Cost - includes all references to cost of living and other expense items except taxes.

Cultural - includes provision of services including schooling but not government per se; the general qualities of life.

Employment - all employment and job related references.

Environmental - includes weather, natural features, beauty.

Family - all references to family and friends.

Government - all references to governments, legislators, selectmen, taxes, and highways.

Housing - all references to houses, home, and land acquisition.

People - all direct references to specific persons except governmental officials; "people" in the general sense.

Safety - any condition related to personal or human safety.

Why They Migrated

A combination of environmental, familial, and cultural forces served as important attractive forces for migrants to Maine. The positive environmental factors are primarily the cool summers, the general environmental attractiveness but particularly the woods, streams, lakes, and ocean front. Hunting and fishing opportunities were looked upon with favor, but by less than a majority of persons responding to the question. Relatively few respondents mentioned skiing, snowmobiling, or other outdoor winter activities.

TABLE 1

Other Than Job, What Attracted (Pulled) You to ME

Environment	406
Family	406
Cultural	346
Cost	97
Housing	77
People	73
Safety	32
Government	9
Other	34

What Like About ME

Environment	666
Cultural	444
People	284
Family	91
Cost	52
Employment	28
Safety	23
Housing	19
Government	15
Other	19

What Dislike About ME

Cost	289
Environment	226
Cultural	211
Employment	173
Government	133
People	37
Family	10
Safety	10
Housing	6
Other	52

Why Might Leave ME

Employment	252
Cost	55
Cultural	52
Environment	44
Family	31
Government	8
Housing	4
People	3
Safety	0
Other	21

Family oriented reasons for coming to Maine tended to cluster in two categories: kinship and/or the suitability of Maine as a place to raise children. In relation to kinship there were also two major themes evident in the responses: a wish to return home to relive childhood or young adult memories, and the need to return to help care for or to be near aging parents or other relatives. In many of the "return to Maine" responses it is evident that not both parties to the marriage shared equally in the positive aspects of the decision.

The cultural reasons for migrating to Maine center on the respondent's positive conceptions of the Maine life style --low key, relaxed, friendly, genuine, etc. Cost factors relate primarily to the generally perceived low cost of living in Maine, particularly for land and housing.

Reasons For Liking Maine

After establishing residency in Maine, the aspects of the state which proved to be pleasing to the inmigrants closely reflected the non job related reasons for their move. This was particularly true in regard to the environmental category--often the same phrases were used to describe satisfactions with Maine living as the respondent stated for moving to Maine. In the cultural category there was an elaboration from the concentration of responses on life style per se to positive evaluations of cultural services of a variety of kinds including educational services.

Dislikes With Maine

Responses to the question regarding what the respondents disliked after, in most cases, a relatively short period of residence centered on costs, environmental factors, and cultural aspects. Objections to high costs in Maine included taxes and the generally higher prices for purchases as compared to larger cities. Former New Hampshire residents were the major objectors to Maine tax levels and structure.

The great bulk of environmentally related dislikes among the inmigrants was the winter weather--its severity and the length of the season. Relatively few complained of the cost of food as compared to their former place of residence. Even though the questionnaires were mailed in February and March there were a considerable number of complaints about black flies (especially) and mosquitoes.

The cultural aspects which were most objected to were what the inmigrants considered to be a combination of narrow provincial points of view on a variety of topics and especially, the perception that Maine natives tend to be over presumptious about the importance of being Maine-born. The strongest indictments of life in Maine were related to the paucity of available jobs and the attendant low wages. This type of response was often associated with statements about the high cost of living in Maine.

Complaints about government were most generally related to the state rather than to the respondent's town or city. The legislators and the governor were castigated for being both too liberal and too conservative. The conditions of state roads and the cut backs in winter road maintenance and snow removal were particular points of contentions.

Reasons For Leaving

Dispite the obvious dissatisfaction with Maine by some of the respondents, 62% report that they intend to stay in the state. The 62% figure is perhaps a more favorable rate of response than it would appear to be. It is a well established fact in migration research that migrants, particularly long distance ones, are mobile people. If they move once, they are likely to move again. It is also established in the research literature that persons with relatively high levels of education, a modal characteristic of Maine inmigrants, tend to be more mobile than are persons who have completed fewer years of formal schooling. A number of respondents indicated that although they liked living in Maine very much, they would be moving because of a search for excitement, curiosity, and the romance of experiencing new living environments.

The major reason that most of the prospective outmigrants cite for leaving Maine is practical, rational, but not romantic. They perceive the lack of suitable employment opportunities coupled with below average levels of compensation to be intolerable. It is not possible to estimate what the cost is to Maine's economy of the departure of potentially valuable employees. It is a problem which deserves the attention of both public officials and private business interests.

Summary

For the decade of the 1970s Maine experienced a relatively high level of net inmigration. The 1970-1980 population increase of 127,000 was the largest decennial census gain in Maine's history. The stream of inmigrants was characterized as being young, with small families, highly educated, with high levels of professional, white collar, and administrative experience or training. Inmigrants in general, and particularly those in the 1975 sample, demonstrated a preference for relatively small places. Major attractive forces for migration to Maine were a combination of environmental, cultural, and kinship related factors. The most negative perception of Maine was related to employment opportunities and low levels of compensation. But the majority of the inmigrants came to Maine voluntarily rather than for forced economic reasons. Half of the 1980 sample respondents took losses in income to move to Maine.

In conclusion, it would seem that, overall, the inmigrants will prove to be an asset to the state, but if the outmigration and inmigration of the 1970s continue for a protracted period, Maine may well be a different place socially, economically, and politically than it was prior to 1970.

Sources Cited or Utilized

Maine Vital Statistics - An annual report of births, deaths, marriages, illegitimate births, and causes of death. Also contains annual population estimates. Published by Maine Department of Human Services, Division of Research and Vital Records. No charge.

The Maine Register - An annual compendium of information for each county and town in Maine including population. Editions to the mid 1970s contain decennial census data from 1850 forward. The Maine Register is published by the Tower Publishing Company, 163 Middle Street, Portland, Maine.

U.S. Census of Population - The specific publication utilized for 1980 Maine population for towns and counties was Advance Reports, 1980 Census of Population and Housing, PHC 80-V-21 (45 cents). All census documents are on sale by the U.S. Bureau of the Census, Washington, D.C., and U.S. Department of Commerce District offices.

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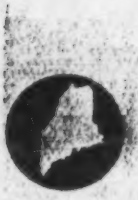

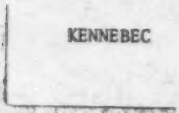

DEPARTMENT
of
AGRICULTURAL and RESOURCE
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STAFF PAPER

IN MIGRATION TO MAINE
A COUNTY COMPARISON

By

Louis A. Ploch

ARE 343 September 1981

COLLEGE OF LIFE SCIENCES
and
AGRICULTURE
UNIVERSITY OF MAINE
ORONO, MAINE

IN MIGRATION TO MAINE: A COUNTY COMPARISON

INTRODUCTION. Most Maine residents are aware that since the early 1970's the State has been experiencing a significant amount of net in migration. In addition to contributing to Maine's current relatively rapid rate of population growth, the recent surplus of in migrants compared to out migrants has several significances:

a. For decades more people were leaving Maine than were moving to it. What population growth there was depended upon the excess of births over deaths. In the United States slow rates of population growth are generally associated with low rates of economic development. The sudden turnaround in both net in migration and population growth during the 1970's has presented the State with new challenges and opportunities.

b. Not only was there a surplus of in migrants during the 1970's, but also their personal (demographic) characteristics tended to vary from those of the average adult Maine resident. The adult in migrants had, on average, more years of formal education, more training or experience in the professional and managerial occupations, and smaller households than did native or long time Maine residents. The personal characteristics of the modal in migrant may represent an asset for the State.

c. Unlike a large proportion of Maine out migrants, many of whom left Maine for employment/economic opportunities, a majority of the in migrants choose to live in Maine because it meets their quality-of-life expectations. They come to Maine to enjoy its environmental and cultural advantages rather than specifically to seek a job.

d. While there is some tendency for the in migrants to concentrate in southwestern and coastal Maine, all areas of the state have been targets of the in migrants. If the in migrants do represent a positive force for Maine's future, then the entire State will be the beneficiary.

The major focus of this publication is to present a large amount of in migration data in a concentrated but easy to read form. Persons interested in a particular county can compare the in migrant data for that county with data for the State. The tables are based on the responses of 1,139 in migrants to Maine who exchanged out-of-state drivers licenses for a Maine one during the July-December 1980 period. More details on both the methodology of the study and its content are contained in reference number one cited below.

In the tables, the left hand column presents the percentage distribution for a given variable for the county identified at the top of each page. The right hand column presents the combined distribution for all 16 Maine counties.

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*A list of publications related to Maine's population growth appears at the end of this introduction.

Readers desiring the tables for additional counties or for the publications listed below may request them by writing to Migration Research, 203 Winslow Hall, University of Maine at Orono, 04469.

References

1. Ploch, Louis A. In Migration to Maine - 1980. ARE 341, Department of Agricultural and Resource Economics, UMO, July 1981.

2. Ploch, Louis A. The Reversal in Migration Patterns -- Some Rural Development Consequences. Reprint of Speech to the Rural Sociological Society, Madison, Wisconsin, 1977.

INMIGRATION TO MAINE - 1980

COUNTY: KENNEBEC

TABLE 1. State or Region of Residence Before Moving to Maine

State, Region	County Respondents	Total Respondents
	- Percent -	
Connecticut	14.1	9.5
Massachusetts	14.1	21.4
New Hampshire	6.4	9.3
Vermont	0.0	1.9
Rhode Island	2.6	1.9
Mid Atlantic	21.8	17.1
Upper South	7.7	7.4
Lower South	6.4	6.9
Mid West	7.7	8.5
Southwest	3.8	3.8
Rocky Mountain	2.6	2.8
Pacific	11.5	7.3
Other U.S. Possessions	0.0	0.3
Canada	1.3	0.9
Other Foreign	0.0	0.9

TABLE 2. Size of Respondent's City/Town

City/Town Size	County Respondents	Total Respondents
	- Percent -	
Under 500	0.0	2.9
500- 999	3.8	7.2
1,000- 2,499	23.1	17.1
2,500- 4,999	15.4	17.7
5,000- 9,999	29.5	26.4
10,000-19,999	20.5	14.1
20,000-29,999	7.7	3.2
30,000 & Over	0.0	11.5

TABLE 3. Percent of Respondents Born in Maine

	Percent
County Respondents	26.0
Total Respondents	21.8

TABLE 4. Percent of Respondents With Spouses Born in Maine

	Percent
County Respondents	25.0
Total Respondents	23.7

TABLE 5. Number of Persons Under Age 5 in Respondent's Household

No. of Persons	County Households	Total Households
	- Percent -	
0	71.8	81.0
1	20.5	14.3
2	7.7	4.2
3	0.0	0.4
4	0.0	0.1

TABLE 6. Number of Persons Age 5-17 in Households

No. of Persons	County Households	Total Households
	- Percent -	
0	64.1	68.0
1	14.1	13.6
2	17.9	12.7
3	2.6	4.0
4	1.3	1.5
5	0.0	0.2

COUNTY: KENNEBEC

TABLE 7. Number of Persons Age 18-64 in Households

No. of Persons	County Households	Total Households
	- Percent -	
0	3.8	4.1
1	16.7	21.6
2	73.1	60.8
3	3.8	8.7
4	1.3	3.7
5	1.3	0.9
6	0.0	0.1
7	0.0	0.1

TABLE 8. Number of Persons 65 Years and Over in Households

No. of Persons	County Households	Total Households
	- Percent -	
0	89.7	89.9
1	7.7	6.8
2	2.6	3.2
3	0.0	0.1

TABLE 9. Type of Housing Respondents Lived In

Housing Type	County Respondents	Total Respondents
	- Percent -	
House or Mobile Home, Owned	43.4	53.1
House Rented	27.6	23.3
Apartment	28.9	23.0
Dorm/Barracks	0.0	0.4
Other	0.0	0.2

TABLE 10. Marital Status

Marital Status	County Respondents	Total Respondents
	- Percent -	
Single	23.1	24.0
Married	73.1	66.2
Sep/Div	3.8	9.8

TABLE 11. Respondent's Years of School Completed

Years of School	County Respondents	Total Respondents
	- Percent -	
8 or Less	3.8	2.9
9 - 11	2.6	5.8
12	16.7	25.4
13 - 15	33.3	28.5
16+	43.6	37.3

TABLE 12. Respondents Holding Full-time Jobs

	Percent
County Respondents	57.7
Total Respondents	56.0

TABLE 13. Respondents Holding Part-time Jobs

	Percent
County Respondents	20.5
Total Respondents	16.9

COUNTY: KENNEBEC

TABLE 14. Respondents Who Are Retired

	Percent
County Respondents	11.7
Total Respondents	17.3

TABLE 15. Percent of Employed Persons Who Are Hired, Self-Employed

Employment Status	County Respondents	Total Respondents
	- Percent -	
Hired	85.5	83.8
Self Employed	14.5	16.2

TABLE 16. Since Coming to Maine, Change in Income Level of Employed Respondents

Income Level Change	County Respondents	Total Respondents
	- Percent -	
Much Higher	7.1	8.6
Somewhat Higher	28.6	22.8
Same	14.3	18.7
Somewhat Lower	16.1	24.2
Much Lower	33.9	25.7

TABLE 17. In the Move to Maine, Which Were More Important: The Pull (Positive) Attractions of Me. or the Push (Negative) Factors of Respondents Former Residence

Most Important Factor	County Respondents	Total Respondents
	- Percent -	
Pull	47.8	46.6
Push	7.2	8.7
Pull & Push About Equal	44.9	44.7

TABLE 18. Employment Status at Time Decision to Move to Maine Was Made*

Employment Status	County Respondents	Total Respondents
	- Percent -	
Employed	66.7	67.5
Unemployed	22.2	21.5
Retired (Not Working)	8.3	9.3
Retired, but re-employed or looking for work	2.8	1.6

* 87.0% of the county respondents and 86.3% of the total respondents reported they were heads or coheads of a household.

TABLE 19. Percent of Respondents Whose Move to Maine Was Job Related

	Percent
County Respondents	44.7
Total Respondents	37.5

COUNTY: KENNEBEC

TABLE 20. Specific Job Related Reasons for Moving to Maine*

Reason	County Respondents	Total Respondents
	- Percent -	
To Look for a Job	2.9	8.8
To Accept a New Job Offer	41.2	46.9
Required Job Transfer (Non-Military)	8.8	6.9
Required Job Transfer (Military)	0.0	6.9
Voluntary Job Transfer (Non-Military)	26.5	13.7
Voluntary Job Transfer (Military)	0.0	1.2
Other	20.6	15.4

*Respondents were requested to select one response from the listed categories.

TABLE 21. Number of Respondents Reporting Specific Skills or Occupations for Which They Are Trained or Experienced*

Occupation or Skill	County Respondents	Total Respondents
	- Number -	
Teaching Elementary, Secondary, College	16	226
Skilled Building Trade (Carp. Elec. Plum)	16	164
Allied Health Skills (Nurse, Dent.Asst.)	11	140
Visual Artist, Actor, Musician, Writer, etc.	6	104
Automotive Trade Skills	8	97
Financial Mng., Accountant	4	68
Social Service Adm., Social Worker	6	66
Machinist, Lathe Oper.	4	58
Physician, Dentist, Health Scientist	1	37
Natural, Physical Scientist	0	35
Farmer	2	29

*The above skills, occupations were listed in the questionnaire. Some respondents could have other skills. Some respondents reported more than one skill. There was a total of 78 respondents from the county.

COUNTY: KENNEBEC

TABLE 22. Percent of Respondents Expecting to Live Permanently in Maine

	Percent
County Respondents	57.9
Total Respondents	68.8

TABLE 23. Percent of Respondents or Family Members Who Belong to, or Intend to Join an Organization(s) in Maine

	Percent
County Respondents	62.2
Total Respondents	63.0

TABLE 24. Percent of Respondents or Other Adult Family Members Who Intend to Buy a Maine Hunting and/or Fishing License

	Percent
County Respondents	66.7
Total Respondents	58.0

TABLE 25. Responses to Question: "Other Than Employment, What Pulled You to Maine"

Category*	County Respondents**	Total Respondents
	- Number -	
Culture, Cultural Events	32	346
Low Cost of Living	1	97
Environmental	23	406
Family, Friends Here	21	406
Government	0	9
Housing, Land	5	77
People Qualities	10	73
Safer Here	3	32
Other	1	34

*All volunteered responses were included in one of the above categories.

**There was a total of 78 respondents from the county.

COUNTY: KENNEBEC

TABLE 26. Responses to Question: "What is it That You Now Like About Maine"*

Category	County Respondents	Total Respondents
	- Number** -	
Job Related	2	28
Culture, Cultural Events	39	444
Low Cost of Living	5	52
Environmental	40	566
Family, Friends Here	6	91
Government	0	15
Housing, Land	1	19
People Qualities	24	284
Safer Here	2	23
Other	0	19

*All volunteered responses were included in one of the above categories.

**There was a total of 78 respondents in the county.

TABLE 27. Responses to the Question: "What Do You Now Dislike About Maine"*

Category	County Respondents	Total Respondents
	- Number** -	
Job Related	9	173
Culture, Cultural Events	23	211
High Cost of Living	27	289
Environmental	12	226
Family, Friends Here	1	10
Government	9	133
Housing, Land	0	6
People Qualities	4	37
Less Safe Here	1	10
Other	1	52

*All volunteered responses were included in one of the above categories.

**There was a total of 78 respondents in the county.

COUNTY: KENNEBEC

TABLE 28. Responses to the Question: "For What Reasons Might You Leave Maine"*

Category	County Respondents	Total Respondents
	- Number** -	
Job Related	17	252
Culture, Cultural Events	6	52
High Cost of Living	7	55
Environmental	3	44
Lack of Family, Friends Here	5	31
Government	0	8
Housing, Land	0	4
People Qualities	1	3
Less Safe Here	0	0
Other	1	21

*All volunteered responses were included in one of the above categories.

**There was a total of 78 respondents in the county.

Senator SCHMITT. Thank you very much.
Mr. Dinges.

STATEMENT OF GEORGE DINGES, DIRECTOR OF GOVERNMENTAL AND COMMUNITY SERVICES, ILLINOIS DEPARTMENT OF COMMERCE AND COMMUNITY AFFAIRS

Mr. DINGES. Thank you very much. I, too, thank you for the opportunity to appear before you.
[Complete statement follows:]

Testimony Before the U.S. Senate Subcommittee on
Rural Housing and Development

Presenter: George Dinges, Illinois Department of Commerce and Community Affairs

I am pleased to have this opportunity to appear before you today on the subject of rural housing and development. This is an area that our department is very much involved in, working with rural communities throughout the state.

By way of brief introduction, the Illinois Department of Commerce and Community Affairs is a state agency charged with the responsibility of providing assistance to communities. This includes direct help in the areas of job creation and retention, manpower training, community development and revitalization, housing, and local government management. In providing this assistance, we work closely with all sectors--private, public, and not-for-profit.

We assist communities on a broad array of housing matters, many relating directly to rural housing concerns. For example, we regularly help communities secure and manage available federal housing funds; administer the new federal Community Development Block Grant program, which includes a specific housing component; work with local housing authorities on an array of management issues and problems; run large federally funded weatherization and utility payment programs; and we have been managing one of only four national demonstration programs in rural housing and community development in the country since late 1976.

I would like to talk for a few minutes about the experiences of our national demonstration program in rural housing and community development--known as the Illinois Areawide Project.

In September 1976, the U.S. Department of Agriculture and the U.S. Department of Housing and Urban Development formally announced a unique two-year demonstration program. The purpose of the demonstration was to help states further strengthen

the delivery of federal housing and community development programs to lower-income persons in rural areas, with an emphasis on the hard-to-reach rural poor. Coordination of federal, state, and local housing and community development programs was a primary objective of the demonstration.

The State of Illinois (along with the states of California, Colorado, and West Virginia) was selected as one of only four states invited to participate in the joint USDA/HUD demonstration program in 1976. The initial program ran for two-plus years. Due to the success of the demonstration, the U.S. Departments of Agriculture and Housing and Urban Development renewed funding of it in late 1979. We currently are closing out the demonstration program.

The major purpose of the national demonstration program (again, known in Illinois as the Illinois Areawide Project) was to develop and implement new and better ways to meet rural housing needs. To do that, we targeted assistance on certain rural areas of the state with high levels of poverty and large unmet housing needs. We placed a special emphasis on trying to get federal housing programs to work better in meeting the needs of rural low-income persons--particularly those persons that traditionally did not participate in the federal programs.

We had considerable federal housing resources at our disposal to help conduct the national demonstration program. Over the past four years, this included:

- $9.75 million set-aside under Farmers Home Administration's "502" program. This funding was used to provide home ownership loans for low- and moderate-income families in the project's rural target areas. The funds were used to construct new housing units and to purchase existing homes.
- $1.783 million set-aside under Farmers Home Administration's "504" program. This provided low-interest loans and grants to lower-income families for home repairs. The emphasis was on remedying housing conditions which posed a threat to the health and safety of residents.

- $13.45 million also was provided by the Farmers Home Administration under their multi-family assisted housing ("515") program. This funding helped to support the actual construction of multi-family housing for rural low-income families.

- In addition, the national demonstration project had community development funding support. The Farmers Home Administration set aside community facility funds to help achieve the objectives of the project. We, as a state agency, directly received HUD Community Development Block Grant funds and, in turn, funded twenty communities to help construct essential community facilities within our project's rural target areas. Fourteen of these communities had never received funding under the CDBG program for non-entitlement areas.

We also had other resources (many local and state) directly involved in conducting the project. This included:

- staff from our department also worked very closely with the rural communities in conducting the project and in addressing housing needs.

- interim construction financing and long-term mortgage bonding from the Illinois Housing Development Authority to help finance the construction of low- and moderate-income rural rental housing.

- direct involvement of a large number of Cooperative Extension Service staff that helped low-income rural residents become aware of and participate in the available federal housing programs.

- regional planning agencies and community action agencies that played key roles in program outreach and in the actual packaging of loan and grant applications for low-income rural residents with unmet housing needs.

- we, also, had significant involvement from local communities--working very closely with us, for example, on project advisory committees that had a major role in helping to target the available state and federal resources in the rural areas.

These were some of the local, state, and federal resources used to conduct the Illinois Areawide Project--again, one of only four national demonstration programs in the country. As I mentioned before, the objective was to better harness and direct these available resources to meet the housing needs of low-income rural residents in target areas of the state--with a particular emphasis on helping those low-income people that had not received program assistance before.

With over four years' experience in running the Illinois Areawide Project, there have been some very significant accomplishments and lessons learned. Let me briefly highlight a few:

- we demonstrated that a lot can be accomplished through a concerted effort to clearly identify the unmet rural housing need in the state and to strengthen cooperation among many agencies and programs in meeting that need, a major theme of the project. During the project period, specific accomplishments were many, including: 700 housing units rehabilitated, 750 new multi-family rural housing units built or under construction, and others. This was a significant improvement over individual agency efforts when there was little or no agency or program interaction.

- the Illinois Areawide Project clearly demonstrated that the leveraging of available housing resources not only could be accomplished, but that it also generated significant accomplishments. Through the close cooperation of all levels of government (federal, state, and local) and the private sector, for example, we were able to: use our HUD Section 8 rent subsidy dollars to help low-income people that were living in housing that was rehabilitated with Farmers Home Administration funding; use HUD Community Development Block Grant funds to help reduce the interest rates on loans secured from banks for Farmers Home Administration financed housing rehabilitation; make extensive use of community action agencies, regional planning agencies, and the Cooperative Extension Service to outreach and package state and federal housing programs for low-income residents; etc.

- the project also demonstrated to us that state government, as one of a number of partners, can make significant contributions to meeting rural housing need. We had the responsibility of running the Illinois Areawide Project and coordinating the involvement of many actors and programs. State government resources--staff and fiscal--were important ingredients in the project's achievements.

- the demonstration project also showed that states can play an important role in the actual delivery of federal housing and community development programs. As I previously mentioned, HUD, as far back as 1977, made Community Development Block Grants to us. We, in turn, provided community development funds to rural localities and helped to administer their programs. This, to a large degree, was a forerunner of the current federal move to make federal community development block grants to states. Also, as part of the national demonstration project, we played significant roles in helping to channel or target Farmers Home Administration housing and community development resources in support of project objectives. While some of the Farmers Home programs have since left us, the lessons learned are helping us greatly as we currently run three large housing-related block grants--HUD's Community Development Block Grant Program; HHS's energy block grant (which helps low-income people weatherize their homes and pay their utility bills); and HHS's Community Services Block Grant, which has a strong housing component.

Let me close by saying that we were very pleased with the Illinois Areawide Project. A good deal was accomplished, and the project equipped us to play strengthened and expanded roles in new federal housing programs and directions.

Senator SCHMITT. *Well, thank you. We've heard similar success from Mr. Hatfield in the West Virginia experience. Is it your understanding that Colorado and California also worked out fairly well?*

Mr. DINGES. Yes, very well.

INTEGRATE PROGRAMS AT STATE LEVEL

Senator SCHMITT. So the lesson is that the State organization is better able to integrate these programs than they can be integrated here at the Washington level.

Mr. DINGES. That was our experience.

Senator SCHMITT. And so you used, in Illinois, if my calculation is correct, $24.5 million in loan authority.

Mr. DINGES. And those are just some of the resources.

Senator SCHMITT. That's the Federal?

Mr. DINGES. Yes. There were even more Federal resources involved.

Senator SCHMITT. And that would enable you to leverage additional State resources; is that correct?

Mr. DINGES. Exactly.

Senator SCHMITT. If through a block grant program you had comparable money that would just add the leverage that you might make in order to meet the goals of your demonstration project on a continuing basis.

Would we find if this became, instead of a demonstration a permanent program, that the enthusiasm would wane and that you would get less competent management of it?

Mr. DINGES. State after State that we have talked to have expressed not only strong interest in this program but in similar efforts that they have undertaken. I'm talking about Wisconsin and a number of other States that have selected modifications of this type of program—they all maintain that enthusiasm. Our enthusiasm would continue. There's no question about it. We are committed to the concept of block grants. We are running three of them right now. Our Governor is very supportive of them. We would reserve obviously our final judgment until we saw the specifics of the legislation and dollars and the admininistration's position, but the concept we believe in extremely strongly.

Senator SCHMITT. Mrs. Lunner, do you feel that Maine, had they had an areawide demonstration project, would have had a similar experience?

Mrs. LUNNER. Yes. I think, again, theoretically, the block grant is a very good one.

Senator SCHMITT. And again, it's because with the block grants, with fewer Federal attempts at coordination from this level, you can provide the coordination necessary to solve particular problems, not to solve theoretical problems?

Mrs. LUNNER. Absolutely.

Senator SCHMITT. Mr. Hatfield, I don't understand your testimony. You sounded very positive and all the sudden you were negative. Would you explain that to me?

Mr. HATFIELD. I'm very positive and very supportive of the block grant approach. Our experience in the block grant program has

been extremely good. We, too, administered the USDA demonstration program with similar kinds of successes and have brought in approximately $20 million in additional Federal fundings to our targeted areas.

However, when I reviewed the information that was submitted to me regarding the amendments to the act, I was very confused and did not agree with many of the provisions. I think with a good deal of cleaning up and some technical corrections that from what I have seen to this point that the approach would be very workable and West Virginia would be a very happy participant in the program.

Senator SCHMITT. Well, we certainly are in the process of cleaning up the details and that's why we have these hearings. So at least based on your experience with the demonstration program you think that the concept of a block grant could work quite well in West Virginia?

Mr. HATFIELD. It does work quite well in West Virginia already.

Senator SCHMITT. What we have to do is be sure the legislation doesn't impose other administrative burdens that eliminate the advantages.

Mr. HATFIELD. That's correct.

Senator SCHMITT. I think we have already taken care of many of those and there may have been some confusion in some of the specifics.

SMALL DEVELOPMENT PROGRAM

Also, I understand, Mr. Hatfield, that you have a small development program.

Mr. HATFIELD. We operate what's called a West Virginia small development program. About 2 years ago in operating the section 8 Farmers Home insured program we discovered that we could not effectively bring to the very small towns in West Virginia, towns of small populations, rural towns, the types of rental assistance that was necessary or needed in those communities. Farmers Home 515 program did not have the section 8 available to it that would provide for an extended type of subsidy arrangement throughout the State.

So we implemented what we call our small development program at the time. We got a commitment from our State board of investments to provide to us long-term financing of $6 million. That allowed us to take section 8 subsidies and provide for development of eight units or less that could be of any size up to eight units, provide that section 8 subsidy to those developments, and we were able to finance 25 developments out of that $6 million, all going to the extremely small towns, the smaller towns in the State.

Further from that experience we were able to go to the bond market and raise an additional $4 million and through the sale of bonds provide an additional 15 units, all subsidized by HUD section 8 program, and that construction and permanent financing was provided through tax-exempt bonds.

However, with the cutback of the section 8 subsidies for fiscal years 1982 and 1983, it's not likely we will be able to continue that program under that form, but we have been able to serve to this

point about 39 to 40 communities throughout the State of West Virginia with very, very small rental projects of up to eight units in size, all developed by a small West Virginia builder-developer, managed by local persons, and we think it's been an outstanding program.

Senator SCHMITT. What was the principal assistance now that made it possible to go below what we understand is a minimum size of something like 25 units? The developers have told us that 25 units is about the minimum size project that they can undertake.

Mr. HATFIELD. Essentially, what we were able to do, the housing development fund was able to provide a lot of assistance to the developer in putting the project together. We essentially prepackaged the whole deal, making that package easier for him to administer, cutting down the processing time to a few short months, rather than years under the normal HUD process time, helping him with the design, providing construction technical assistance, essentially walking that developer all the way through the process of submitting his initial application to bringing the project up once it's completed its construction.

In eight units or less going with the very small developments, we were able to make initially under that program loans available from our State board of investment at the rate of 9.5 percent. That was market at the time. Of course, it's certainly not market today. Our recent bond sale for permanent financing under that program allowed us to provide financing at 12.5 percent for these developments. That still works under the HUD section 8 fair market rent limits.

What we essentially had is a program that the State, in partnership with the private developer, causes these developments to be proposed, to be planned, to be constructed, and ultimately managed. We even take the responsibility away from--or at least the burden off the manager's shoulders of being able to prepare the monthly statements to us to receive their subsidies on behalf of those tenants. As long as we get adequate reports we prepare those reports for them through a small computer. What we tried to do is develop a program tailormade to the smaller builder.

Senator SCHMITT. Plus assuming their administrative overhead or a significant part of it.

Has Maine any similar kind of effort?

Mrs. LUNNER. Yes, we've done a number of very small section 8 projects. We don't have a development fund or something of that nature. They've been done through the section 8 program in a traditional kind of way. The average size is between 8 or 12 units without any additional subsidy or special administrative overhead. I think in the most part they have been rehabs.

Senator SCHMITT. What about Illinois?

Mr. DINGES. Well, we're administering the section 8 program in our department right now, with an emphasis on moderate rehabilitation. We are engaged in similar type projects.

Senator SCHMITT. One final technical question. Do you find in your States that the very old housing may tend to be more amenable to rehabilitation than the housing built, say, since 1940 up until the last 10 years? Is there a difference there? I'm thinking of that

period of time when energy costs were low enough that people didn't make that as a major design criteria in their homes.

Mr. HATFIELD. In West Virginia, I think we have very old housing stock. We have the wide differences of coal company houses that were built at the turn of the century through the 1920's. There was very little housing that was developed from 1930 through 1950. The type of housing that we have primarily is either extremely old or very new and that type of housing, particularly the coal company housing, does require a great deal of retrofitting, rehabilitation, improvement, and a program such as we have operated in the past through the HUD block grant program and uses that in tandem with the Farmers Home fund have been used almost primarily with that type of housing.

Senator SCHMITT. Mrs. Lunner.

Mrs. LUNNER. The vast majority of Maine's housing stock was built before 1940 and it's very high quality stock. Many very large older homes are particularly suitable for rental housing conversions, and it lends itself very well. Also, we have found that a resource that's underutilized are the many small downtown second or third stories which again lend themselves very well to residential rental rehab conversions. Much of this commercial downtown space on upper floors of small buildings is vacant or highly under-utilized.

Senator SCHMITT. So we've got to be very careful not to set up too specific criteria because you just gave the two extremes. I know in New Mexico we can go back a few hundred years and the old adobe stock is still ultimately rehabilitable and it's also very good at energy saving. We've had a hard time convincing HUD that adobe was adequate housing stock, but I think we finally have done that.

What about Illinois?

Mr. DINGES. Our situation is basically similar to Maine.

Senator SCHMITT. And I suspect South Dakota would be similar to that. The old housing is in pretty good shape so long as it's been cared for. But the coal company housing and the old stock was not particularly good and it certainly hasn't gotten any better.

OK. Well, we'll try to take all of that into account.

I appreciate very much your testimony. Thank you.

The hearing is recessed.

[Whereupon, at 12:30 p.m., the hearing was adjourned.]

[Additional material received for the record follows:]

MAINE STATE HOUSING AUTHORITY

April 23, 1982

The Honorable Harrison Schmitt
Chairman, Senate Subcommittee on Rural
Housing and Development
United States Senate
5313 Dirksen Building
Washington, D.C. 20510

Dear Senator Schmitt:

Thank you once again for the opportunity to testify on the rural housing block grant proposal. In response to your request for information on the income levels of families moving to rural areas, I have enclosed a copy of a report that treats this subject on a national basis. You may want to invite the author, John Kasarda of the University of North Carolina, to offer additional information or Calvin Beale of the USDA Population Studies Program who has also done research in this area.

The source data for a Maine study of this nature is not readily available. I will, however, within a few weeks forward the findings of a survey done by Louis Ploch of the University of Maine, Orono on the characteristics of families moving to rural areas of the state. The Bureau of Census publishes a report on the characteristics of movers and the 1981 report based on the 1980 census should be available in a few months.

While I would once again stress the capacity of states, through housing finance agencies, to administer a rural housing block grant program, it is important to emphasize that unless the Congress removes the sunset provisions (December 1983) on the use of mortgage revenue bonds for single-family home purchase and improvement loans and excludes multi-family rental housing from the Administration's proposed changes to Industrial Revenue Bonds, many states would have major reservations on accepting responsibility for administering a rural housing block grant program.

Without the ability to leverage federal dollars with state mortgage revenue bond capital, the agruments in favor of a state block grant program lose much of their substance.

In closing, I would emphasize the need for Congress to pass the proposed amendments to the Mortgage Subsidy Bond Tax Act of 1980 submitted with my written testimony. These amendments would particularly benefit the development of rental housing in rural areas on a scale compatible with the existing housing stock as well as promote the rehabilitation of substandard rural rental housing which accounts for the majority of all substandard rural housing.

These proposed amendments, for example, would make it possible for elderly, owner-occupants in rural areas to add accessory rental units through revenue bond financing that are affordable and far more cost-effective than newly constructed rental housing. The amendments would not increase the level of revenue loss costs to the federal government above what has already been budgeted.

In many rural and urban areas as well, there is a massive underutilization of existing housing stock. While a growing number of homeowning elderly, unmarried, divorced, childless and one-child families find themselves rich in space but at the same time hard pressed to meet operating costs, renters remain space-poor, competing for a dwindling supply of available and affordable housing. The proposed amendments would act to bridge these mismatches of supply and demand.

As the Congress considers alternative rural housing delivery programs, it is imperative that complimentary resource relationships be considered. I hope these additional comments are helpful and commend you for taking the initiative to explore ways in which housing programs to rural areas can be more effectively delivered.

Yours truly,

Sharon Mitchell Lunner
Director

SML:jc

Enclosure

The Implications of Contemporary Redistribution Trends for National Urban Policy*

(By John D. Kasarda, Department of Sociology, University of North Carolina, May 1980)

Fueled by an intense interaction of technological, economic, and social forces, the demographic and industrial landscape of the United States changed apace during the 1970s. On an interregional scale, we witnessed the continuing redistribution of population and economic activity away from the traditional northern urban-industrial heartland to the more recently developing southern and western regions. On an intraregional scale, the locus of residential, commercial, and industrial growth increasingly shifted away from metropolitan central cities to their suburbs and exurbs and even on into relatively remote nonmetropolitan sectors of each region. Indeed, for the bulk of this nation's metropolitan core cities, the absolute declines in middle-income population and employment opportunities have been so substantial that some scholars have begun to question whether they can, or even should, maintain the dominant residential and commercial positions they once held (Baer, 1976; Muller, 1978).

In the wake of accelerating dispersion of population and jobs, a number of federal policies have been implemented to mitigate the social and economic problems that redistribution trends have engendered for many core cities and their inhabitants. These policies, which were titularly consolidated in 1978 under the rubric of the Carter Administration's National Urban Policy, appear to have been, at best, marginally successful and, in some instances, counter-productive, inadvertently generating side effects that have further weakened city economies. The reason for this lack of success, in my judgment, rests with the failure of many urban policies to give adequate recognition and weight to contemporary technological, economic, and social dynamics underlying the locational decisions of people and firms, and the corresponding changing functional roles large cities most effectively perform in our own advanced service economy.

My objective in this paper is to discuss contemporary inter- and intra-regional redistribution trends with an eye toward drawing implications for revised national urban policies. Because of space constraints, my assessment will focus on the more general trends and, therefore, I will not be able to address some highly diverse experiences occurring within these broader trends. I'll begin with an overview of interregional demographic and economic growth patterns, then move on to a treatment of metropolitan-nonmetropolitan shifts, and, finally, discuss central city-suburban redistribution patterns. My working thesis is that these three basic redistribution patterns are interwoven and are commonly rooted in changes in transportation and communication technology interacting with a rapidly changing structure of national and international economic organization. With this model in mind, I'll conclude with some recommendations for our national policy makers to contemplate.

INTERREGIONAL REDISTRIBUTION TRENDS

The most striking interregional population redistribution trend during the 1970s was the heavy net population gains the South experienced via net migration exchanges with the Northeast, the North Central region, and the West. This is in direct contrast to the net migration outflows the South experienced to all major regions for every census decade between 1900 and 1960. As may be observed in Table 1, the South ceased being a net exporter of people to the Northeast and North Central regions during the 1960s but continued to have negative net migration exchanges with the West. However, in the first half of the 1970s, 75,000 more people migrated to the South from the West than vice versa, and between March 1975 and March 1978 the net migration flow from the West to the South accounted for an additional 125,000 migrants. Net migration to the South from both the Northeastern and North Central regions increased dramatically during the 1970s. These migration flows, together with the net inflow of migrants from the West, accounted for a total net migration gain for the South of 1,829,000 people between 1970 and 1975 and a further net migration gain of 1,010,000 people between 1975 and 1978.

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*Portions of this paper were presented at the President's Commission for a National Agenda for the Eighties and National Academy of Sciences Joint Symposium on Policies and Prospects for Metropolitan and Nonmetropolitan America in the Eighties, Washington, D.C., June 1980 and at the annual meeting of the Population Association of America, Denver, Colorado, April 1980.

TABLE 1.—NET INTERREGIONAL MIGRATION BETWEEN 1965–70, 1970–75, AND 1975–78

[Net migration in thousands]

Regional migration exchanges	1965–70	1970–75	1975–78
South net exchange with:			
Northeast	+438	+964	+456
North Central	+275	+790	+429
West	−56	+75	+125
Total other regions	+657	+1,829	+1,010
West net exchange with:			
Northeast	?24	+311	+212
North Central	415	+472	+290
South	⁄6	−75	−125
Total other regions	+695	+708	+377
North Central net exchange with:			
Northeast	+5.	+67	+31
South	−275	−472	−290
West	−415	−790	−429
Total other regions	−637	−1,195	−688
Northeast net exchange with:			
North Central	−53	−67	−31
South	−438	−964	−456
West	−224	−311	−212
Total other regions	−715	−1,342	−699

Sources: U.S. Bureau of the Census, 1972, 1975a, and 1978.

The next fastest growing region during the 1970s (the West) continued its historic trend of importing many more people from the remainder of the nation than it exported. Despite becoming a net exporter of people to the South during the 1970s, the West has continued to attract substantial numbers of migrants from the nation's Northeastern and North Central regions. Thus, between 1970 and 1975, the West experienced a total net immigration of 708,000 people and between 1975 and 1978, a total net immigration of 377,000 people from other regions of the nation.

Of the two net people-exporting regions of the nation, the North Central region has fared slightly better than the Northeastern region during the 1970s. The small difference between the two regions in total net migration can be accounted for by net migration gains of the North Central region at the expense of the Northeast. Between 1970 and 1975, the North Central region registered a net inflow of 67,000 migrants from the Northeast, and between 1975 and 1978, it expanded via another 31,000 net migrants from the Northeast. The large migration losses of residents of the North Central region to the South and West during the 1970s led to overall net interregional migration losses for the North Central region of 1,195,000 people between 1970 and 1975 and 688,000 people between March 1975 and March 1978.

During the 1970s, the Northeast suffered consistent net migration losses to all regions of the nation, with particularly heavy migration streams to the South. On the whole, between 1970 and 1975, the Northeast exported 1,342,000 more people to other regions of the nation than it imported. Of that total net outmigration, 964,000 can be attributed to net losses to the South. Between March 1975 and March 1978, the Northeast experienced an additional net migration loss of 699,000 people, of which 456,000 were net losses to the South.

What accounts for such large interregional net migration shifts, especially the dramatic turnaround of the South from a net exporter of people until as late as 1960 to the powerful human magnet it became in the 1970s? Net migration, of course, can be accounted for not only in terms of attracting residents from the regions of the nation but also by retaining those born in the region.

In terms of attracting migrants, there are a number of both noneconomic and economic reasons: (1) A growing footloose retirement population whose private pensions, Social Security payments, and other sources of income are not tied to specific locations and who have sought the milder winter climates that the South, in particular, provides; (2) The introduction and spread of central air conditioning systems that allow far more comfortable summertime living and working conditions; (3) Lifestyle changes oriented to more recreation and year-around outdoor activities; (4) Changing racial attitudes permitting blacks new opportunities to participate in the mainstream economic and social institutions; (5) More progressive political orientation and an increasingly cosmopolitan southern metropolitan atmosphere that has

put to rest much of the antiquated rural, red-neck imagery many northerners and westerners had of the South; (6) Generally lower living costs; and (7) A dramatic improvement in the quantity and quality of consumer services brought about largely by rising personal income levels.

All of the above, however, while certainly contributory, are clearly secondary in importance to or dependent upon the emergence first of the West and now the South as the major industrial growth pole of the U.S. economy. Before World War II, the Northeast and North Central region contained the bulk of this nation's industrial locational advantages, including extensive railroad and inland waterway systems, well developed inter- and intrametropolitan highways, nearness to rich coal deposits, ubiquitous public utilities, a diverse and relatively better educated labor force, and strong local markets. These externalities and agglomeration economies provided firms locating in the Northeast and North Central region with competitive cost and market advantages that allowed them to develop and expand much faster than in the relatively less developed, more agriculturally oriented Western and Southern regions. The industrial dominance of the Northeastern and North Central regions, in fact, continued until as late as 1960, at which time these regions still contained more than two-thirds of the nation's manufacturing jobs, most concentrated in and around the core cities of the largest metropolitan areas.

Blue-collar job expansion between 1940 and 1960 in the Northern industrial belt stretching across the Middle Atlantic and East North Central census divisions from New York and New Jersey to Illinois continued to draw large numbers of Southern migrants in search of improved economic opportunities. During the same period, the rapid growth of the aerospace, defense, solid state electronics, and other advanced technology industries, together with the expansion of large-scale commercialized agriculture and Western oil field development, spurred the economies of the far West, especially California. These newer growth industries were instrumental in attracting a net of nearly six million migrants to California alone between 1940 and 1960. This net migration represents more than the combined total of net migration of all other states (excluding Florida) that exhibited net immigration between 1940 and 1960 (U.S. Bureau of the Census, 1975 b).

The major locus of new post-World War II national employment growth, which had been in the West until 1960, shifted to the South during the 1960s and has become entrenched there. Between 1960 and 1980, total nonagricultural employment increased in the South by nearly 15 million jobs—well above the combined total job increases of the Northeast and North Central region (U.S. Bureau of Labor Statistics 1960, 1980). This job expansion took place not only in rapid growth areas—service sector industries—but also in the older so-called slower growth manufacturing industries.

The South's attractiveness as an industrial growth pole is a function, in large part, of dramatically improved accessibility to national markets via new interstate highway systems, shifting energy sources and costs, and lower manufacturing wage rates interacting with a changing structure of the national economy and growing negative externalities of the concentrated Northern industrial metropolis (e.g., congestion, powerful unions, high land costs, high taxes). To these technological and materialistic conditions are added healthy doses of progrowth attitudes and industrial boosterism on the part of the Southern communities and their government officials. Let me elaborate briefly.

Accessibility and corresponding transportation costs have always been the paramount factors in locational decisions of industrial firms. The development of major four-lane highway systems in the South, together with the steady reduction in the bulk of raw materials used in manufacturing processes, and a major shift from rail to truck transport following World War II, reduced substantially the previous accessibility problems of Southern industrial locations. At the same time as the accessibility of the South to national markets was improving, rising labor costs in a number of older, Northern industries and a non-unionized blue-collar labor surplus in the South served to filter many low-wage, labor-intensive industries to the South. (Indeed, as the United States became increasingly interwoven into the world economic order, large numbers of routinized labor-intensive jobs [e.g., electrical component assembly, processing of leather goods and apparel] filtered entirely out of the country to such low-wage, labor-surplus sites as Korea, Taiwan, Singapore, Malaysia, Hong Kong, and the Philippines.)

Changing energy requirements and costs also reduced and, in some cases, reversed the previous locational advantages Northern industries held. Encouraged, in part by federal environmental policies, which were implemented in earnest during the 1960s, there was a major conversion of older Northern industrial plants from coal to oil and natural gas as primary energy sources for production processes and plant

heating. (Many electrical utilities in the North simultaneously converted from coal to oil or natural gas to generate electricity.)

Since Southern locations were closer to domestic sources of oil and natural gas, many were able to obtain them at lower rates, especially compared to the Northeast.

The regional energy price differences were rather small, however, throughout the 1960s as price controls on oil and natural gas and a U.S. surplus of these fuels permitted Northern manufacturing industries to be highly competitive on a national and international market, despite paying much higher wages. (Cheap energy in the North thus served to keep its industrial output internationally competitive.)

Price decontrol of oil and natural gas and their intermittent shortages—together with accelerating union-generated wages—removed many older Northern manufacturing industries, such as fabricated metals and nonelectrical machinery, from competing effectively on the international market and, in some cases, national market. Rising heating and maintenance costs of outdated physical plants placed the North at a further competitive disadvantage for industrial growth.

Conversely, lower energy costs, lower blue-collar wages, relatively more modern physical plants, and material product shifts away from heavy metals (iron and steel) to lighter material (aluminum and plastic) have provided the South with distinct locational advantages to compete for what national growth is occurring in the manufacturing sector. Thus, between 1970 and 1980, manufacturing jobs in the South increased by 926,600, whereas the Northeast lost 585,400 manufacturing jobs and the North Central region lost 116,200 jobs in manufacturing (U.S. Bureau of Labor Statistics, 1970, 1980).

It would be a mistake to assume that manufacturing growth was the chief factor creating job expansion in the South. Led by remarkable growth in tertiary and quaternary industries (e.g., recreation, tourism, finance, research, and development), more than seven and one-half million non-agricultural, non-manufacturing jobs were added to the Southern economy between 1970 and 1980, far outpacing any other region of the nation of job growth in these sectors (ibid.).

Also driving the remarkable job expansion in the South has been what most entrepreneurs consider to be the overall best business climate in the nation. During the past two decades there has been a substantial upgrading of mass education levels and technical training in the South; readily available and relatively inexpensive land for firm locations and plant expansions; lower costs of living which makes real wages higher than other regions; better employer-employee relationships; fewer costly shutdowns and slowdowns due to strikes, weather conditions, or energy shortages; and a public and government attitude toward business that is highly favorable. These attitudes are reflected in lower business taxes, right to work laws, and a peerless form of industrial boosterism that congratulates new business developments and plant expansions rather than computing their costs (Perry and Watkins, 1977; Biggar, 1979). In fact, most Southern states have explicit public policies promoting growth, with vigorously pursued industrial solicitation and state-sponsored training programs for prospective employees of new firms. As Jeanne Biggar (1979) has noted, Alabama has fully equipped mobile units for technical and vocational training that move about the state as the needs of particular industries dictate. The State of South Carolina offers free technical training to all prospective workers in communities, tailored to the specific needs of the industry locating within commuting distance of the community. Southern governors, state officials, and local chambers of commerce travel throughout the nation and the world actively soliciting industry for their states and communities, and when representatives from these companies arrive, they are given the "red carpet tour" (Breckenfeld, 1976; Goodman, 1979).[1]

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[1] Of course, officials in a number of Northern states have also begun active programs to solicit new industry. However, the inducements they offer to prospective businesses do not typically match the lavish enticements Southern states and cities often provide. As a case in point, consider the Jacksonville, Florida solicitation in 1975 of a subsidiary of Westinghouse Corporation that announced that it was looking for a site to locate a production facility that would build large offshore power generating systems. To ensure that Jacksonville was the site selected, the city offered the company: (1) a gift of 850 acres of choice industrial land where the production facility could be located; (2) a promise to build and maintain a $137 million special access bridge to the location; (3) an offer to buy, through its municipal power company, two of the power systems produced by the company at an estimated cost of upwards of $2.2 billion; (4) an offer to sell $180 million's worth of low interest bonds to provide working capital for the company; and (5) a commitment to construct an $11 million vocational-technical education center to train the 10,000 employees expected to work at the production facility. (Source: U.S. News and World Report, September 1, 1975:30-33.)

In short, public attitudes and policies toward business in the South are positive, upbeat, and enticing, while those in the North are frequently ones of suspicion and distrust. In the Northeast, for example, the acquisition of new business sites or land for plant expansion is frequently inhibited by a plethora of community restrictions, labyrinthine regulations, and public reviews which often lead to costly delays, and, sometimes, preclude new development entirely.[2] Public policies that back strong unions, including public employee unions, result in frequent strikes and devastating public worker stoppages, such as the April 1980 New York City transit strike. As Charles Leven (1978) points out, business and industry in the North often seem to be viewed less as job generators and more as either exploiters of the working class or as captive golden geese who should be squeezed, by taxes and other means, to lay additional golden eggs for the rest of the community. It should not be surprising, then, that, despite the many other business amenities that Northern locations have, the bulk of new business formations and expansion of existing industries is taking place outside the North.

METROPOLITAN-NONMETROPOLITAN REDISTRIBUTION TRENDS

Until the mid-1960s, most nonmetropolitan counties were viewed as the areas left behind. For nearly 100 years, the industrialization of the U.S. economy had generated concentrative migration to metropolitan areas. So large was the migration of nonmetropolitan residents to the metropolitan centers through the 1950s, that, despite higher rural birth rates, national population increase became largely synonymous with metropolitan growth.

However, by the early 1970s the net migration to metropolitan areas had reversed, and reversed significantly. Between 1970 and 1978, more than 2.7 million more people moved out of metropolitan areas than moved into them. Whereas one-sixth of all metropolitan areas lost population, three-fourths of all nonmetropolitan counties gained population. What makes this turnaround all the more striking is that it has been apparent in all major census regions and in relatively remote counties nonadjacent to metropolitan areas, as well as those adjacent. Moreover, among the nonmetropolitan counties, there is an inverse association between the size of the largest urban places within the county and its net migration. Fuguitt and Voss (1979) have shown that those nonmetropolitan counties with no incorporated places larger than 2,500 experienced the largest annual net migration between 1970 and 1975. The next largest net migration was found for those nonmetropolitan counties whose largest urban place was between 2,500 and 10,000; and net migration gains were the least in those nonmetropolitan counties containing an incorporated place greater than 10,000. Furthermore, in all these counties the rural, unincorporated areas grew much faster than the incorporated towns and the incorporated towns themselves exhibited an inverse growth rate with their size. One must wonder, then, that if public services are deemed so necessary or desirable by government of-

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[2] An excellent example here is the defeat in 1978 of a proposal by a major shopping center developer to build an 82-store mall in Williston, Vermont, a nearby suburb of Burlington. Although many of Williston's residents favored the proposed mall because it would have increased the community's employment base and tax rolls and reduced real estate taxes by an estimated 30 percent, others (including the town government) were alarmed by the potential size of the mall and fiercely fought the project. After a year of community reviews and civic wrangling, the pro-mall forces of Williston won a public referendum that required that their town officials cease all opposition to the mall. However, in the meantime, anti-mall forces in Williston had appealed to neighboring communities to become involved in the mall resistence efforts; whereupon the city of Burlington actively joined the opposition movement. As a legal stopgap, officials of Burlington used a special Vermont environmental protection act which requires nine district commissioners to review the impact on the broader region of all projects of 10 acres or more. Under Vermont law, the commissioners have authority to approve or disapprove such projects. To meet what they thought were all possible environmental objections, the developers (who invested more than $2 million into their proposal) dramatically revised their original plans. Nevertheless, Burlington officials, now joined by such allies as Friends of the Earth and the Sierra Club, forced 50 additional public hearings on the project contending that the mall posed a "threat to the Vermont way of life." The outcome of all these hearings (to quote from Time magazine which covered them) was as follows: "After reviewing thousands of pages of testimony, the commission acted. Although it applauded the developer for its landscaping, water pollution control and energy conservation efforts, the commission noted that by dictionary definition, the environment is an "aggregate of social and cultural conditions that influence the life of an individual or community." By that standard, the commissioners said, the mall would indeed have an adverse environmental impact on neighboring Burlington, not only by stunting its own orderly growth, but also by affecting its entire social fabric. The decision: no mall. (Source: Time, November 13, 1978:116-117.)

ficials, why the American population continues to move to areas where they are not available. I'll return to this policy issue in my recommendations.

The reasons for the unanticipated turnaround in net migration to those counties relatively removed from metropolitan areas appear to be multifaceted and complex. They include, among others, (1) the extension of the interstate highway system through many remote areas and the expanded all-weather surfacing of rural roads; (2) the expansion and linkage of locally-owned telephone companies into the Bell system; (3) the extension of power lines and other public utilities and services, such as new centralized rural water systems, throughout most nonmetropolitan counties; (4) telecommunication advances, including cable T.V.; (5) the proliferation of nationally standardized consumer goods and service establishments in nonmetropolitan counties; (6) dual residences associated with rising real incomes and increased leisure time; (7) a growing footloose retirement population; and (8) life-style changes oriented to more bucolic, less densely settled environments (Hawley and Mazie, 1980).

One thing that is not happening, however, is a rediscovery of the joys of working the land or any new "return to the soil" ethic (Alonso, 1978). During the 1970s the farm population continued its precipitous decline, dropping by over 1.7 million between 1970 and 1978 (U.S. Bureau of the Census, 1979). Today, less than 10 percent of the nonmetropolitan labor force is engaged in agricultural occupations. This would imply that, with the exception of the retirement population (which accounts for only a small portion of overall nonmetropolitan migrants), economic opportunities have substantially expanded in the nonmetropolitan counties. Indeed, this is the case. While the 225 largest Standard Metropolitan Statistical Areas suffered a net loss of 513,000 jobs in manufacturing between 1970 and 1978, nonmetropolitan counties experienced an increase of 619,000 manufacturing jobs. But, as is the case with the South, manufacturing growth accounts for only a small portion of the nonmetropolitan job growth. An additional 3,452,000 service sector jobs emerged in the nonmetropolitan counties between 1970 and 1978 (Haren and Hollins, 1979). By 1980, nearly two-thirds of all nonmetropolitan workers were employed in the expanding service-performing sector and the trend shows no signs of abating.

Other economic forces that have provided increased employment opportunities in nonmetropolitan areas include the revival and expansion of highly localized energy-related industries in the Rocky Mountain states and upper-Midwest; the growth of nonmetropolitan university and college towns; a dramatic increase in construction jobs created by nonmetropolitan residential and economic growth; and an increase in local government employment administering to growing and modernizing nonmetropolitan political units.

Behind much of the growth in nonmetropolitan America are changes in transportation and communication technology that broke the traditional locational ties many economic activities had to metropolitan areas. These technological advances enabled industries to become more footloose so that substantially more weight could be given to social, political, and environmental factors in locational decisions. Simultaneously, as previous urban-industrial agglomeration economies were transformed into agglomeration diseconomies (e.g., congestion, higher costs of land and labor), business sites in nonmetropolitan areas become more profitable.

Again, as was the case with migration turnaround in the South, new business formations and business expansion in nonmetropolitan areas served not only to reduce substantially the number of rural residents who in the past migrated to metropolitan areas in search of employment, but also to attract millions of additional people from metropolitan areas. The trend appears secular and mutually reinforcing since more migrants means larger nonmetropolitan populations to serve and sustain which, in turn, generates more local employment opportunities which acts further to attract additional migrants. Moreover, most recent data indicate that the majority of nonmetropolitan migrants are married couples whose heads are better educated, more likely to hold white-collar occupations, and, consequently, have higher incomes than either those who migrated from nonmetro to metro or the nonmetropolitan residents in general (DeJong and Keppel, 1979; Fuguitt and Voss, 1979). In fact, Williams and Sofranko (1979) show that approximately 75 percent of metropolitan to nonmetropolitan migrants exhibit either rising or steady wages and salaries which means the migrants have even higher real wages and salaries, since costs of living are typically less in nonmetropolitan areas.

Finally, the research on residential preferences has over the years shown that Americans prefer smaller, more rural, and, hence, less densely settled areas (Fuguitt and Zuiches, 1975; Zuiches, 1980). Changing technology and nonmetropolitan employment opportunities are now apparently allowing more and more Americans to achieve their residential preferences. In the meantime, the net movement of

better educated population with more disposable income who have experienced urban life-styles is dramatically changing the texture of nonmetropolitan America. This change is a "rural renaissance" only in the strict demographic sense.

From an economic and sociological standpoint, the transformation is more of an urbanization of nonmetropolitan territory, as traditionally urban occupations and consumption patterns have diffused to remote areas. With improved highways, telecommunication advances, and the nonmetropolitan increase of specialized consumer goods and services heretofore restricted to large urban areas, the nonmetropolitan population can enjoy the cultural, informational, and material fruits of a metropolitan life-style without suffering many negative externalities often associated with metropolitan residence (high taxes, noise, congestion, pollution, social turmoil). In short, the cultural isolation as well as the physical isolation of many rural communities from metropolitan activity patterns and life-styles have been substantially reduced. This sociological factor is, in all likelihood, the sufficient condition that sparked many metropolitan residents to migrate to more remote nonmetropolitan communities after the necessary condition of economic opportunities developed there.

INTRAMETROPOLITAN REDISTRIBUTION PATTERNS

Whether or not the metro to nonmetro migration turnaround just discussed represents what some have called a "clean break" from previous trends depends upon the vantage point on the rural-urban continuum from which one is observing the phenomenon. From the point of metropolitan core cities, this new migration trend represents a continuation of urban deconcentration that began more than a half-century ago (Kasarda and Redfearn, 1975; Berry and Kasarda, 1977; Hawley and Mazie, 1980).

With some exceptions, the deconcentration of population from central cities to suburbs historically has been selective by income level. The automobile and commuter train—along with rising real incomes, state and federally funded radial and suburban highway systems, and federally insured home mortgages—encouraged and facilitated the mass suburbanization of the middle and upper class in metropolitan America. However, almost as quickly as these groups moved beyond central city boundaries, they were replaced by lower-income groups in the classic Burgess (1925) city growth pattern. The outcome, of course, has been growing numbers of metropolitan poor concentrated in the central cities, as the suburban rings became the residential locus of the upwardly mobile urban social groups.

Now, some social scientists and journalists are claiming that the Burgess-type growth pattern is being reversed, that a "back to the city" movement is generating neighborhood revitalization and leading to "regentrification" (an interesting, but totally inappropriate, term), and that we are on the threshold of an urban residential renaissance. While, no doubt, selective neighborhood upgrading is occurring in many cities, the hard data that I have been able to examine show that, for cities as a whole, their residential conditions and aggregate personal income levels are continuing to deteriorate. I'll return to this issue in a moment.

But, first let me review what has been happening in terms of the redistribution of jobs between cities and suburbs which I have been stressing is instrumental to the vitality of any area. I will begin with a brief review of redistribution trends in metropolitan central cities and suburbs during the 25-year period from 1947 to 1972 (the latest date for which I currently have access to complete economic censuses), then move on to a discussion of employment shifts during the 1970s.

Let me initially note changes in employment levels for those industries that typically do not require substantial education: manufacturing, retail, and wholesale trade. When one examines changes in central city and suburban employment levels with these industries in terms of the size of the Standard Metropolitan Statistical Area (SMSA), age of the SMSA, and region, extremely sharp gradients and distinctions appear (Kasarda, 1978). For example, the central cities of the 33 SMSAs over one million population in 1970 lost more than 880,000 manufacturing jobs between 1947 and 1972, while manufacturing jobs in their suburbs grew by over 2,522,000. These same 33 central cities lost more than 565,000 retail jobs and 302,000 wholesale jobs between 1947 and 1972, while retail and wholesale jobs in their suburban rings grew by 2,360,000 and 798,000, respectively. On the other hand, central cities as well as suburbs of SMSAs under 250,000 population showed substantial net gains in manufacturing, retail, and wholesale employment.

The 49 central cities that had attained 50,000 or more population before 1900 showed losses of 1,370,000 in manufacturing, 750,000 in retail, and 366,000 wholesale jobs between 1947 and 1972. The suburban rings of these same 49 central cities

showed job gains of 2,300,000 in manufacturing, 2,200,000 in retail, and 805,000 in wholesale trade. When employment changes within central cities and within suburban rings are summed, respectively, across the three industrial categories, the total job losses to central cities and job gains in suburbs are mind-boggling.

Examining central city-suburban job changes in the Northeast and North Central regions, we obtain the same massive central city job losses and suburban ring gains. On the other hand, younger SMSA central cities and central cities in the South and West show aggregate increases in manufacturing, retail, and wholesale employment in both their central cities and suburban rings between 1947 and 1972, even after adjusting for annexation (Kasarda, 1978).

When one analyzes changes in occupation data by place of work between 1960 and 1970, we find that large, old, Northeastern and North Central region central cities suffered huge losses in blue-collar occupations (craftsmen, laborers, and operatives) but experienced substantial gains in professional, technical, managerial, and clerical occupations. Assessment of migration data during the same period shows that it is the same set of cities (large, old, Northern cities) that experienced the largest absolute inflows of population with education levels ill suited to the requirements of the expanding white-collar jobs. The result is a growing mismatch between the employment opportunities in these cities and the skill composition of their residential population. The outcome of this mismatch is increased reverse commuting of central city blue-collar workers to suburban jobs and increased suburban to central city commuting of white-collar workers, as well as growing structural unemployment among those lower-skilled persons residentially confined to cities where blue-collar jobs are declining. (For data supporting the above, see Kasarda, 1978.)

The selective redistribution of population and jobs between central cities and their suburbs has been well documented through 1972. What has happened since 1972? All the information that I have been able to put together from various sources suggests that the residence-job mismatch and corresponding structural unemployment problems have become worse in most large cities. Despite government incentives at all levels, industries providing blue-collar jobs are continuing to eschew a central city location. Expensive and difficult to assemble tracts of land, congested streets and highways, high taxes combined with deteriorating public services, shortages of manpower with the right skills, and problems of employee absenteeism and discipline are the most frequent reasons cited by blue-collar industrialists for not choosing an inner city location (Economic Development Administration, 1971; Struyk and James, 1975; Schmenner, 1978). Directed by their sixth sense of profit, entrepreneurs of blue-collar industries have sought alternative, more cost-effective sites in the suburbs, exurbs, and nonmetropolitan areas that are far better suited to today's advanced transportation and production technologies, and to avoid what has become some serious negative externalities of an inner city location.

To escape the costs and headaches of a central city location, yet maintain important agglomeration and scale economies, many manufacturers and wholesalers have banned together in modern industrial parks along major suburban and exurban expressways. These peripheral industrial parks (over 2,000 of which have formed since 1960) are not only particularly well adapted to advanced production and transportation-distribution technologies but they also generate their own self-contained agglomeration and mutual-scale economies (Muller, 1976). More specifically, they offer ample, relatively inexpensive space for employee parking, freight transfer, and automated single-story production and distribution facilities, as well as excellent accessibility to regional and national markets via interconnecting expressways, beltways, and interstate highways. Information, material, and personnel can be quickly and conveniently transferred between and among proximate plants, and by pooling the costs of security, public utilities, insurance, and taxes, mutual-scale economies are obtained that lower the expenses of the individual firms and improve their competitive position. The decentralized industrial parks provide explicit testimony that agglomeration and mutual-scale economies have, themselves, become footloose, allowing firms to locate almost anywhere in the metropolitan region and beyond.

Further testimony that agglomeration and mutual-scale economies are no longer tied to central locations can be found in the remarkable growth of suburban shopping centers and regional malls during the past 25 years. Between 1954 and 1978, more than 15,000 shopping centers and malls were constructed to serve the expanding middle- and upper-income suburban and exurban populations. By 1975, these shopping centers and malls produced over one-half of the annual retail sales in the United States (Muller, 1976).

For most of suburban Americans, the enclosed regional malls have become their Main Street, Fifth Avenue, and the community social and entertainment center—all wrapped up into one. Not only do the malls include retail establishments of every

size, price range, and variety, but they also contain elegant restaurants, fast food shops, movie theaters, public service outlets, community meeting rooms, and common space utilized for a plethora of inexpensive patron attractions such as concerts, dances, stage and fashion shows, boat shows, auto shows, scout jamborees, antique fairs, science fairs, stamp, coin, and art exhibits, skating rinks, and even petting zoos. The broad spectrum of goods and service offerings and special customer amenities that malls provide (e.g., controlled yeararound springlike climate; clean pedestrian arcades insulated from automobile traffic, noise, and polluted air; excellent security and lighting for safe and relaxed nighttime shopping; and convenient, free customer parking), and their excellent accessibility to the automobile-oriented suburban population, have combined to give the regional malls a distinct competitive edge in capturing the metropolitan retail dollar. Indeed, regional malls have become so successful that many larger central cities are not trying to simulate them in their downtowns in an attempt to recoup some of their lost shares of metropolitan retail sales and employment.

Advances in transportation and communication technologies have not only reduced the economies of centrality in the older, slower growth manufacturing, wholesale, and retail industries, but they have also impacted on economies of location in the newer, rapid growth administrative office and research and development sectors. The quinessential feature of our emerging footloose economy may, in fact, be observed in the substantial development during the past two decades of expansive, style-setting administrative office and research parks in deconcentrated suburban and exurban settings. The telecommunication revolution, in particular, has almost entirely removed the advantages of concentrated centrality for many administrative office and research and development functions. For those firms that must maintain regular contact with other persons or units located either in the central cities or outlying areas, conference picture phones, two-way cable T.V., rapid facsimile teleletters, and computerized information transmission networks allow a substitution of efficient, high-speed electronic interaction for often time-consuming personal gatherings (Muller, 1976; Hiltz and Turoff, 1978).

Like many ultra-modern industrial parks, quite a few of the decentralized office and research parks are located in bucolic, campus-like settings complete with executive clubs, restaurants, swimming pools, tennis courts, jogging tracks, and other amenities attractive to contemporary, more leisure-oriented, life styles. Moreover, since most executives, middle-managers, and professionals currently reside in the suburbs and exurbs (by preference, recall), the decentralized office and research complexes permit an actual reduction in much residence-workplace commuting time, energy use, and expense. Organizational cost-effectiveness is enhanced by the large, relatively well-educated suburban clerical pool who are eager to work in nearby office complexes at lower wages than would be required if they had to commute to offices in the central cities. Further cost-effectiveness is provided by lower land costs, office rents, and taxes and by substantially reduced rates of employee turnover and absenteeism compared with counterpart firms located in the central cities (Muller, 1976). The interaction of these social, demographic, and economic forces would seem to overdetermine that the suburbs and exurbs will far outpace the central cities in white-collar job growth during the 1980s.

This is not to say, however, that there will not be significant central city job growth in white-collar office and professional functions, particularly in those financial, managerial, professional, and "knowledge class" occupations that require a substantial amount of quick, nonroutine face-to-face interaction. Central city employment growth may also be expected in administrative headquarter offices that continuously utilize diverse sets of externalized support services such as advertising and public relations, job printing and publishing, legal, accounting, and management consulting services. There are still important economies of proximity for many of these activities, and most who perform them can be stacked upon one another, layer after layer, in downtown office buildings, with relatively little loss of productivity (Porter, 1976).

There is another extremely high-growth industry in older, larger central cities that has received little scholarly inquiry. That is the dramatic rise in convention and tourism business fostered by the growing number of professional and trade associations and rising incomes of a sizable and geographically fluid segment of the population. I will also comment on this rich potential for cities in a moment.

First, however, let me comment upon the so-called back-to-the-city movement and the purported urban residential renaissance. A number of publications, mostly impressionistic and journalistic in nature, but supported by few hard facts, have suggested that white-middle-class residents are streaming back to inner city neighborhoods and that cities are showing remarkable new signs of residential and economic

health. A recent study, prepared by the Urban Policy Staff at the U.S. Department of Housing and Urban Development (HUD, 1979), together with other carefully conducted research show very much the opposite. The main findings of these studies are as follows:

1. The overwhelming flow of middle-class households during the 1970s has been out of, not into, the central cities. For every household with income levels of $15,000 or more who entered central cities between March 1975 and March 1978, three left the cities (U.S. Bureau of the Census, 1978). During this period, four out of five family heads who left the central cities had incomes over $15,000 per annum. As a result, aggregate personal income of central city residents continues to drop precipitously. The average annual aggregate income difference between movers out of the central city and movers into the central cities between 1970 and 1975 resulted in a loss of $29.6 billion in disposable personal income for the cities. The annual aggregate income difference between movers out of the central cities and movers into the central cities between 1975 and 1978 led to another $18 billion city loss. George Sternlieb (1979) computed the cumulative eight-year effect of central city migration on central city resident incomes (in constant 1976 dollars) and found that the net loss to central city aggregate personal incomes due to in- and outmigration between 1970 and 1978 was $64.8 billion.

2. Revitalization has occurred in only a tiny fraction of any city's neighborhoods and has affected only a small portion of their stock. Between 1968 and 1979, only one-half of 1 percent of the nearly 20 million housing units in cities have been affected by revitalization or restoration efforts (HUD, 1979).

3. The vast majority (more than 70 percent) of households residing in revitalized central city units were intracity movers and not suburbanites or nonmetropolitan residents who moved back to the city (Goodman, 1978).

4. Displacement of minorities and lower-income groups in absolute or aggregate terms is quite small (HUD, 1979).

5. The concentration of minorities and poverty level population in central cities is continuing to increase, both in absolute and proportional terms. Between 1970 and 1978 central cities lost nearly four million white residents while the central city black population increased by 542,000. During the same period, the total number of central city residents below the poverty level increased by 235,000, including a net increase of 441,000 blacks below the poverty level (Sternlieb and Hughes, 1979).

6. Substantial residential and commercial disinvestment continues to be active in almost all older, larger, central cities, and far exceeds reinvestment. During the 1970s, expanding blighted neighborhoods and increased residential abandonment which characterized so many central cities were matched with accelerated deterioration and abandonment of commercial and industrial facilities (Sternlieb and Hughes, 1979).

7. The growth of central business district office employment during the 1970s has not nearly compensated for central city losses of blue-collar jobs and jobs in the retail and wholesale sectors. In New York City, for example, during the 1970s while white-collar professional, clerical, and managerial jobs were rapidly expanding in Manhattan, New York City as a whole lost 600,000 jobs. It has been estimated that this net job loss alone resulted in a tax loss to New York City of almost $500 million—an amount that would just about cover its present deficit (Embry, 1979).

In sum, many major U.S. cities are still in deep trouble as their residential and employment bases continue to deteriorate. This is especially the case for the large, older central cities in the Northeast and North Central regions of the country. In these regions, the forces of counterurbanization are so strong that it is unlikely that any National Urban Policy that would be politically feasible at this time could reverse them, or even slow them down. Nevertheless, based on what we can learn from contemporary regional, metro-nonmetro, and city-suburban redistribution trends, a number of implications for National Urban Policy can be drawn.

POLICY IMPLICATIONS OF REDISTRIBUTION TRENDS

1. From the push and pull factors involved in the remarkable job growth in the South: An Urban Policy apropos Northern cities should be well-informed by the favorable business climate that has fostered so much recent economic development in the South. To help improve the business climate in Northern cities and suburbs, HUD and state officials may wish to work vigorously with local officials to reduce building permit delays and other bureaucratic red tape and modify certain local zoning restrictions that unnecessarily inhibit new business development and plant expansions. Such a policy might include an educational campaign to help create a more favorable attitude toward business on the part of local officials and their resi-

dents. It might also involve forming a close working relationship with private and public employee unions to prevent crippling work stoppages and public employee strikes that tarnish the image of the central cities and act as a disincentive to business men who are considering locating plants and other employment units in the cities.[3]

2. From the metropolitan to nonmetropolitan population shifts, particularly the increasing movement of urban Americans to relatively remote, unincorporated rural areas where public service provision is minimal: A National Urban Policy should foster a serious inquiry as to whether most urban residents need or even want all the municipal services supported by government expenditures. A careful assessment of real public service needs and prudent budget trimming could help reduce the fiscal strain many large urban areas are facing, or redirect expenditures to services and facilities that would improve the competitive position of the cities, such as upgrading the public schools or maintaining and refurbishing the urban infrastructure (e.g., streets, bridges, water and sewer systems).

3. From accelerating residential dispersion and urban sprawl: No longer necessarily assume that dispersion is bad and concentration is good in terms of relative social, economic, and environmental costs and benefits. By dispersing from the central cities, tens of millions of Americans have been able to improve their housing, employment conditions, and living environments. Sprawl, in fact, is a loaded term, full of pejorative connotations. Despite the fad among many city planners and academics to label suburban and exurban growth as haphazard, inefficient, and undesirable, it is now becoming apparent that peripheral growth is not nearly as random or inefficient as once believed. Without the guidance of any conscious master design, the suburbs and exurbs are evolving their own relatively self-sufficient hierarchy of activity centers, ranging from higher-order regional commercial and employment centers to lower-order convenience goods and residential centers. The evolution of this multifunctional nested hierarchy of activity centers has given rise to a new form of spatial organization—the polycentric ecological field—which has replaced the technologically antiquated primate structure of the monocentered industrial metropolis. Within this new, more diffuse form of spatial organization, the traditional metropolitan central business district has become just one specialized node in a multinodal, multiconnective ecological field of interdependent activity centers, extending outward as far as 100 miles from the metropolitan core. The fact that the cost-effectiveness and productivity of many modern economic activities are enhanced in outlying nodes has made them valuable job generators for the U.S. economy. Moreover, as outlying activity centers have grown, they have begun to develop their own propinquent labor sheds, permitting reduced employee commuting distances and daily travel expenses. Polycentric nodes also reduce problems of convergence, congestion, air pollution, and wear and tear on core infrastructure (i.e., streets, highways, bridges) associated with extensive journey-to-work commutation and truck shipments into and out of the traditional monocentered metropolis (Schneider and Noguchi, 1978).

In terms of residential energy consumption, large concentrations of high density housing preclude widespread use of steady-state energy sources (e.g., solar collectors and windmills). Likewise, potential greater reliance on replaceable fuels to supplement home heating (such as the use of woodburning stoves) would create unbearable air quality conditions in larger concentrations. Dispersed, low-density settlements, on the other hand, are able to tap more pragmatically the energy of natural systems as partial replacement of expensive fossil fuels (Vining, 1979). They are also able to obtain benefits directly from the natural environment such as waste absorption, noise buffers, microclimate and water quality control that must be compensated for

[3] The critical importance of entrepreneurial perception of a city's overall business climate in job generation-degeneration decisions was again documented in a detailed survey of owners and managers of private firms in major cities compiled in 1979 by the Joint Economic Committee, Congress of the United States. Business owners and managers were surveyed about the full range of factors affecting their decisions to expand, contract, or relocate their firms. The most important factor was the owners' and managers' perception of city government attitude toward business as reflected by bureaucratic regulations, local business taxes, and provision of public services that benefit industries. Cities were ranked by entrepreneurs in terms of percent feeling that the city had a favorable business climate for investment or firm expansion. The rating ranged from 98.6 percent responding that Dallas, Texas exhibited a favorable business climate to only 33 percent favorable for Detroit and 27.2 percent favorable for New York City. (Source: Central City Businesses—Plans and Problems, Joint Economic Committee, Congress of the United States, January, 1979.) See also Thomas Muller, "Central City Business Retention: Jobs, Taxes, and Investment Trends," presented at the U.S. Department of Commerce 2nd Urban Roundtable, March, 1978.

in large population concentrations by purchased services that raise costs and taxes (Odum, et al., 1976).

Finally, environmentalists' arguments that urban sprawl and residential dispersion are gobbling up prime agricultural land and diminishing available wildlife and recreation areas appear to be overly alarmist. U.S. Department of Agriculture surveys document that we have more than sufficient productive cropland which advanced agriculture technology continues to increase (Cotner, et al., 1975). While it is true that 900,000 acres of farmland are converted annually to urban and transportation use, 1.25 million acres of efficient cropland are added to our agricultural base each year by swamp drainage and desert irrigation alone (Simon, forthcoming). In fact, the bulk of our cropland that goes out of production yearly has nothing to do with residential dispersion or urban sprawl, but results from its poor soil quality or terrain that is not suitable to the efficiencies of modern agricultural machinery (Barlowe, 1978). Regarding available wilderness recreation and wildlife areas, an average of one million acres are added to our reserves each year (Simon, forthcoming). Between 1920 (the conventional date given for when suburban rings began growing faster than the central cities) and 1974, wildlife refuges and state and national parks increased from eight million acres to 73 million acres, and they are still expanding (Barlowe, 1978; Simon, forthcoming). In short, before future policies apropos residential dispersion are shaped, the opinions of environmentalists that population redistribution and urban sprawl are resulting in critical reductions in our productive agricultural land and loss of available wildlife and recreation areas should be weighed against hard data that suggests otherwise.[4]

4. From the pervasive deconcentration of industry and most other forms of economic activity away from more densely settled central cities to the suburbs, exurbs, and remote rural areas: A National Urban Policy must clearly recognize that the era of massive centralized industrialization is over and that large, dense concentrations of people and firms have become technologically obsolete. Urban policies based on the assumption that productivity is enhanced in large urban areas are outdated and wrong, as evidenced by the consistent location decision-making of industrial leaders (McCarthy and Morrison, 1979). No policy will overcome prudent entrepreneurial decisions to locate where costs are minimized and returns maximized. A National Urban Policy should work with the forces of redistribution rather than fruitlessly attempting to reverse them. In this regard, if policy makers are really serious about revitalizing our urban cores and avoiding future central city economic stagnation, they should cease attempting to entice older production industries back to the central cities, but implement programs to help develop the urban cores in terms of their competitive strengths. Here, technological changes during the past three decades have transformed major cities from centers of material goods production to centers of service consumption. Thus, along with continuing to foster the development of administrative and professional office jobs in the central business districts (CBDs), the cores of our cities should be revitalized as culturally rich, architecturally exciting magnets for conventions, tourism, and leisure-time pursuits of regional, national, and even international populations. All structural indicators point to the office and cultural-leisure service industries as providing the greatest potential for central city economic expansion and job generation over the next two decades (see Perloff, 1978). Special efforts should be made to enhance central city cores as pedestrian-safe complexes of restaurants, hotels, nightclubs, museums, theaters, sport arenas, and other cultural, recreation, and entertainment facilities that would attract round-the-clock growth-industry resources to the cores as well as economically and aesthetically complement the increasing number of nine-to-five high-rise office buildings that are now beginning to dominate most CBDs. These efforts should include concurrent support for the revitalization and restoration of "close-in" historic neighborhoods which would both contribute to the cultural appeal of the urban core and provide convenient residences for a portion of those employed in the CBDs.

5. From the growing mismatch of the skills of the residential labor force of cities and the types of job opportunities expanding in the city: A National Urban Policy should work to break down the restrictive covenants, zoning regulations, and barriers of racial and income housing discrimination that exist near many expanding

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[4] Examining hard data more carefully may have dissuaded the architects of our current National Urban Policy from giving such heavy weight to the increasingly criticized study, "The Costs of Sprawl" (Real Estate Research Corporation, 1975). This prototype study, which offers a strong indictment of the American penchant for low density living, does not employ any real data at all, and actual research with hard data on the experience of existing communities points predominantly to the opposite conclusions of "The Costs of Sprawl" (see Altschuler, 1977 and Vining, 1979).

suburban, exurban, and nonmetropolitan blue-collar job bases. Building more public housing in the inner city will only exacerbate the problems of mismatch and ensure that a large portion of their residents remain wards of the state. Moreover, large concentrations of the poor around the CBDs pose serious negative externalities for the cities by discouraging shoppers and tourists from nighttime utilization of core facilities and by substantially increasing the risk of new capital investment on CBD peripheries. Stiffled central city business expansion, in turn, feeds back to the detriment of the urban poor by reducing potential city tax revenues that could be used, in part, to provide better and more humane services to those in need.[8]

6. From the incipient inner-city neighborhood revitalization movement: Our National Urban Policy should be informed that this movement got started without any government involvement and there is a possibility that future government involvement may only lessen the likelihood of its success. We are already beginning to hear cries from some about displacement, which, in a sense, is another loaded term. Neighborhood upgrading could just as easily be the term used to describe the movement. Indeed, it is curious that some who not long ago were deploring the growing homogeneity of lower-income minority neighborhoods in and around the core areas of our cities are now so upset about the arrival of relatively small numbers of middle- and upper-income white residents into a portion of the neighborhoods. These apostates see revitalization not as an ecological process of inner-city neighborhood rejuvenation that can improve the urban revenue base and return some of the cherished social and income residential heterogeneity that our central cities once possessed, but as an uprooting phenomenon that is occurring at the expense of the poor (see, for example, congressional testimony by Brown, 1979). Accordingly, they argue that strong federal policies and programs must be implemented to monitor and control urban reinvestment so as to guard against possible displacement. The potentially chilling effect that such a policy would have on private reinvestment initiatives in our core cities should be painfully obvious even to the casual urban observer. This is not to suggest that our urban policies be insensitive to those displaced by neighborhood upgrading and other forms of urban reinvestment. It does mean that extreme caution should be undertaken in formulating such policies to insure that they do not in any way jeopardize the one fledgling movement that is providing our larger cities with some hope that their core residential areas can serve as more than the dumping grounds for the nation's disadvantaged.

CONCLUDING REMARKS

Much has been written over the years about the role federal domestic policies have played in shaping the territorial redistribution of population and economic activity in the United States. In this paper, I've attempted to reverse the role directionality and discuss how contemporary redistribution trends might inform a more fruitful National Urban Policy. My basic thesis is that, for our National Urban Policy to be successful, it must 1) give greater recognition and weight to current technological, economic, and social forces underlying the locational decisions of people and firms, and 2) be grounded in a better understanding of the functions our metropolitan core cities are best equipped to perform in a changing national and international economic order.

Regarding the former, modern transportation and communication technologies have made compactness unnecessary for conducting most of today's economic and social exchanges. In fact, in many situations, compactness hinders them. Given the overwhelming preference of most Americans for low density living and the greater productivity of many modern industries in deconcentrated settings, the architects of our National Urban Policy should be careful not to allow their own apparent opinions favoring compactness obstruct the highly rational locational decision-making of our citizens and industrial leaders.

Regarding the second condition, the economic metamorphosis of our large cities from centers of production to centers of consumption calls for urban policies that will foster the cities' new job-generative consumer-service activities. It would be a vacuous effort to attempt to draw (by tax incentives or other means) larger industrial facilities back to the metropolitan cores. On the contrary, national economic prosperity (upon which the health of our cities is inextricably dependent) and growing international economic competition dictate policies that encourage the location of our industrial facilities where their overall productivity and cost-effectiveness are

[8] See Downs (1973) for additional arguments that deconcentration of the disadvantaged from our urban cores would improve the economic and social prospects not only of the central cities but the presently disadvantaged as well.

maximized. To ease structural unemployment, our urban policy should simultaneously facilitate the development of lower and moderate income housing near expanding suburban, exurban, and nonmetropolitan job bases and support intensive up-to-date technical training programs that will provide all those desiring employment with the appropriate skills.

A successful National Urban Policy, then, must take an entirely new view of the functions of cities and of the triadic relationship among deconcentration, private sector development, and urban economic welfare. It will require programs that are consistent with the redistributional forces of economic development and that address the roots of urban structural unemployment rather than programs that attempt to reverse the paths of development and ameliorate symptoms of underlying problems through antimarket intervention. In this regard, even the most socially sensitive and humane seem to be increasingly concurring that the patchwork of social programs implemented in our present urban policy poorly serve the long-term economic health of the central cities and the bulk of their disadvantaged residents. Although well intentioned, urban public housing subsidies, social welfare assistance, and CETA and federal manpower job programs are continuing to attract and residentially trap larger numbers of disadvantaged in our urban cores while offering them little hope for meaningful or permanent employment. Similarly, income transfer payments, designed to help the least fortunate, are having the perverse effects of creating a sense of permanent dependence among many, stifling their initiative and mobility, and contributing to damaging social frictions and prejudices between the advantaged and disadvantaged (Alexis, 1978). Rent controls have resulted in accelerated deterioration of central city apartment complexes and discouraged private developers from investing in the construction of needed moderate income rental units; while federal minimum wage laws thwart private sector job generation for the unskilled in the cities and prevent millions of marginal, yet potentially productive, workers (especially teenagers) from participating in the urban economy.

We must have a National Urban Policy that provides for the welfare of those incapable of economic self-sufficiency. Yet our policy makers must recognize that the long-term economic health of our central cities and their inhabitants will be served only through private sector investment and through the relocation and/or appropriate retraining of the structurally unemployed. This implies a fundamental reorientation of our National Urban Policy from emphasizing expensive stopgap social programs to counter market and job redistribution trends to emphasizing economic development programs that will stimulate private sector investment and job expansion and facilitate the relocation and/or retraining of those able to fill the newly generated jobs. As long as our National Urban Policy is dominated by programs that work against, rather than with, the modern forces of change discussed in this paper, the policy will fail. In the meantime, it will continue to waste an immense amount of human and fiscal resources and further impede prospects for improved national industrial productivity.

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Council for Rural Housing and Development
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April 13, 1982

Honorable Harrison H. Schmitt, Chairman
Senate Rural Housing Subcommittee
Room 5313 - Dirksen Senate Office Building
Washington, D. C. 20510

Dear Senator Schmitt:

Pursuant to the suggestion of your staff, enclosed please find testimony for the record of the hearings of your Rural Housing Subcommittee held on April 13, 1982.

We sought to testify at the hearing, but were informed by your Committee Staff that because of the very limited time available, the Committee would be unable to accommodate all parties wishing to appear on your proposed restructuring of the rural delivery system. This fact buttresses a key point of our testimony -- that full consideration of this proposal be deferred until next year. Then, there would be adequate time for full hearings to allow all concerned groups to make their views known. Also, this additional interval would provide the opportunity for our group, as well as others, to develop other possible changes to the rural housing delivery system that should be considered in conjunction with your proposal, and permit the unhurried deliberations so essential to the significant restructuring that you suggest.

We commend you for your concern with rural housing programs, and the recognition of the need for their continuance. We look forward to working with you to achieve the best possible legislation in this regard.

Very truly yours,

Herbert F. Collins

Herbert F. Collins,
President

cc: All members of the Senate Banking,
Housing and Urban Affiars Committee
Mr. Peter Harkins
Mr. Al Eisenberg

CLE/HFC/srl
Enclosure

1800 M Street, N.W., Suite 400 South
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STATEMENT OF THE
COUNCIL FOR RURAL HOUSING AND DEVELOPMENT
TO THE
SENATE BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE
TO BE MADE PART OF THE RECORD OF
ITS HEARINGS OF APRIL 13, 1982

As a matter of background, the Council is composed of over 75 member organizations from all sections of the country who are active developers under the Section 515 program. Although we have been in existence just a little over a year, we have been quite active in both the legislative process and in working closely with Farmers Home to assure workable regulations and procedures.

Rural Housing Needs

Although you may be generally familiar with rural housing needs, a few salient facts bring into sharp focus the housing needs of rural America.

Family income in non-metro areas, although growing, still lags significantly behind such income in metropolitan areas ($18,069 vs. $22,590). Although rural areas have only 26.7% of the nation's population, they have 38.4% of those in poverty.

In non-metro areas, 36% of renters who occupy adequate housing spend more than 30% of their income to do so. For the very low income house renters, those below 50% of the median, 78% of the renters occupying adequate housing have such affordability problems.

Non-metro houses are twice as likely to have kitchen and heating defects, three times as likely to have plumbing defects, and ten times as likely to have inadequate sewage systems as homes located in metropolitan areas.

Although housing needs are greatest in rural America, the supply of credit to meet such needs is far less. A study found that in 1975, banks and savings and loan associations in large metropolitan areas had assets of $8,800 per capita -- more than twice the $3,400 per capita in rural and non-metro counties. In that same year, the savings and loans had deposits of $2,000 in capital in the larger metro counties, compared with only $70 per capita in non-metro counties.

It is this mismatch of high need and low resources to meet this need that impelled Congress in the Housing Act of 1949 to establish the Farmers Home Section 502 home ownership program, and Section 515 rental housing program. We who work actively on the Section 515 program are proud of that program's record in meeting the needs of rural American renters. Since its 1949 inception, over 225,000 units of housing have been built. Of all the federal programs, Section 515 targets its assistance to those who need it most. A 1979 FmHA survey showed that nearly 85% of the occupants of Section 515 projects had incomes under $9,000.

Section 515 is a cost efficient program. For FY'81, the cost of a Section 515 assisted unit was $29,314, compared with nearly $40,000 for a unit assisted under the Section 8 program. The delinquency rate of the Section 515 program is roughly 5%, and defaults are virtually non-existent -- a record unmatched by any other housing program.

In addition, Section 515 results in good community development. The concentration of people in rental units can mean less federal, state and local tax dollars spent on streets and road construction and maintenance, sewer and water system construction, as well as public and school transportation. Also, money spent on Section 515 creates a community asset that lasts for many years, as opposed to one-shot assistance under most social service programs. Although there may be a turnover of tenants in a rental project, the apartment itself contnues as a resource for low income tenants for at least twenty years.

With this background, we are here before the committee to stress two major points, one dealing with FY'83 funding and the other with the proposal being forwarded by Senator Schmitt to change significantly the mechanism to administer housing programs in rural America.

FY'83 Funding

In view of the great need in rural areas, and the success of the Section 515 program in meeting the need, we are aghast at the Administration's proposal to cut Section 515 funding from $940 million in FY'82, enough for approximately 29,400 units, to $200 million in FY'83, enough for only 5,740 units. Although we realize that we are in an era of financial stringency, few federal programs have been asked to take the extreme cut that the Section 515 program must under the Administration's budget. As we stated before, there is no justification on a programatic basis for such a cut -- Section 515 has been a high performance, high quality program, the source of virtually no public criticism during its thirty-two years of existence.

We urge that your subcommittee include a realistic FY'83 authorization of $940 million for the Section 515 program. We also urge an authorization of $398 million for the rural rental assistance program to keep it at the FY'82 level.

Restructuring Rural Housing Administration

We have studied the outline of the proposal of Senator Schmitt, Chairman of the Rural Housing Subcommittee. As we understand the proposal, Farmers Home would be limited to making market rate loans in rural areas. The necessary subsidy to make the housing available for lower income families would have to be obtained from the state agency administering a rural housing block grant.

As we have not seen any legislative language, we would like to withhold judgment until we have had the opportunity to consult with our members. We are sure that other concerned groups are in the same position, which leads to our first recommendation -- namely, the deferral of consideration of this proposal until next year. All involved need this opportunity to fully understand, and more important, to submit suggested changes, or other alternatives, directed to the ends sought in this proposal. This far-reaching proposal certainly deserves more public ventilation than the month remaining until May 15th, when this Committee must report out authorizing legislation.

We do have a few initial reactions --

First,we have polled our members as to their views on FmHA administration of the Section 515 program. Universally, our members report a very high degree of satisfaction with FmHA and with the program. Of course, as Section 515 is administered on a state-by-state basis, there are some jurisdictions where FmHA administration of housing programs is not satisfactory. It would be a great mistake to base national policy on the experience of these few states, and to destroy an administrative structure which is performed extremely well.

Second, as our testimony indicates, the Section 515 program is virtually the only vehicle to help low income families in rural areas. This is done through the

effective, and sure, combination of Farmers Home direct loans with interest credit and rural rental assistance. Senator Schmitt's suggestion to bifurcate this administrative mechanism means the Developer would have to go to FmHA for the loan and to the state agency for the subsidy. It is our understanding that such subsidization would be discretionary with the state agencies, and that there would be no requirement to match loan funds and subsidy funds. Without this combination, there just won't be additional low income housing in rural America.

Third, and related to the second point, the emphasis of this Administration is to make it easier for citizens to deal with their government, and not harder. The strength of dealing with FmHA is that the agency runs its program through conveniently located district offices, who handle both loan and subsidy funds. Under the proposal under consideration, a Developer presumably would still deal with the district offices for loan funds, but would then have to go to a separate agency, probably located many miles away in the state capital, to bargain for subsidy. This change would create an administrative nightmare that would haunt any would-be participant in the program.

We emphasize again that these are preliminary thoughts. Perhaps our views will change with greater time to study the proposal in specific form, and this is all the more reason for deferring consideration of the proposal. In addition, we would welcome the opportunity to work with you and your staff to develop the best possible rural housing delivery system, building on the effort you have commenced. Specifically, we are most pleased that you will continue the lending role of FmHA.

We thank you for the opportunity to appear before you today.

COUNCIL OF STATE HOUSING AGENCIES

CSHA'S POSITION ON HOUSING ASSISTANCE BLOCK GRANTS

What follows is a CSHA analysis of a possible Housing Assistance Block Grant. Our position on this subject reflects our concept of a Housing Assistance Block Grant and what we believe a state housing finance agency role would be. This paper does not take a position for or against the full implementation of Housing Block Grant Program. In addition this paper includes a discussion of how state agencies might use block grant funds for specific programs. Both ownership and rental programs are addressed in this portion of our discussion. In concept we believe the block grant approach would address both ownership and rental housing needs.

The Council and its membership believe that a dialogue on this and other matters which affect future housing policy and impact upon the housing needs of millions of Americans is essential at this time. We therefore welcome input from other interested parties. The Council and its members also gratefully acknowledge the efforts of the CSHA Block Grant Task Force whose members included, Bruce Sachs, Sharon Mitchell Lunner, John Blake and Tony Buzzetti, in the development of this paper.

The Council of State Housing Agencies (CSHA) was formed in 1974 to promote the common interests of state housing finance agencies in providing housing for low and moderate income families. Located in Washington, D.C., the Council draws upon both the financial skills and traditional housing development and management experience of its members as it plays its part in the nation's housing debate.

It is a function of CSHA to keep its member agencies fully informed of federal, state, administrative and legislative developments that affect subsidized housing. In addition, CSHA keeps the general public informed of the accomplishments of programs sponsored by member agencies.

I. CSHA POSITION ON HOUSING ASSISTANCE BLOCK GRANTS

This paper develops essential program components of housing assistance block grants from the perspective of state housing finance agencies. State housing finance agencies bring to the block grant arena long and varied experience in delivering subsidized housing to low and moderate income households. Their unique record of achievement carries promise for optimal program delivery in the face of reduced federal subsidies and radical program change. To fulfill this promise, however, the block grant framework must give sufficient responsibilities and funds to states for developing feasible housing programs. This means that Housing Assistance Block Grants must include a housing production component that is administered by states. We are proposing that 30% of the total pool of block grant funds allocated within a state be reserved for statewide housing rehabilitation and new construction activities, if that state has established a housing finance agency.

State housing finance agencies have the technical capacity, beyond any other state or local entity, to leverage funds with outside sources and promote innovative financing mechanisms for reducing housing costs. Moreover, under the direction of state agencies, funds would be allocated to the areas of greatest need, whether they be large or small, urban, suburban or rural. In this way, the rigid guidance of federal directives would be replaced by the detailed knowledge and indigenous perspective that only state governments can offer.

CSHA's Concept Of A Housing Assistance Block Grant

Federal resources can address priority concerns most effectively when allocation decisions are made by state and local governments. No single form of housing assistance is appropriate for the nation as a whole. Housing needs differ from community to community, as well as by age group, tenure type, family size and income. Block grants can be responsive to this national diversity, producing programs tailored to local conditions. Federal new construction and substantial rehabilitation of rental units must augment the housing supply in many low income areas. Where vacancy rates have reached record lows, and condominium conversions and abandonments of dilapidated stock further diminish housing choice, the number of housing units must be increased to assure adequate housing for low income tenants. Housing allowances have not stimulated new construction or major rehabilitation activities. Housing block grants, which could be combined with housing vouchers, would allow municipalities to select the programs they need.

HFA Capabilities

Housing Assistance Block Grants should be designed to take advantage of the experience and proven delivery techniques offered by state housing finance agencies which are empowered by state legislatures to finance housing through the issuance of bonds and to participate in federal housing programs.

At the State level, HFAs offer the range of administative capabilities that most closely match those required under a housing assistance block grant. HFAs have played a major role in the delivery of Section 8 new construction, (substantial rehabilitation) and existing rental assistance. The 32 HFAs that are involved with the Section 8 new construction program have financed nearly 200,000 units, or about 28 percent of all units

started. Many State agencies are now also administering Section 8 existing housing programs. The Georgia Housing Finance Agency for example currently administers a 5,000 unit Section 8 existing housing program. A number of HFAs such as Maryland and Virginia also administer Section 8 Mod Rehab Progams.

State agencies participate in other Federal housing programs including: FmHA Section 502 single family program, FmHA Section 502 and 504 rehabilitation programs, and construction financing for the FmHA Section 515 multifamily program which offers interest subsidies at below-market rates.

Beyond the delivery of Federal programs, State Housing Finance Agencies have developed a range of housing services to meet specific state housing needs. Examples of state HFA-sponsored programs include: Home Improvement loans, Mortgage Insurance, Seed Money Loans for Nonprofits, Energy Conservation Loans, Group Homes for the Elderly and Handicapped.

In its primary role as a provider of moderate and low cost ownership and rental housing, the accomplishments of State Housing Finance Agencies are particularly noteworthy. Despite the fact that most State HFAs are less than ten years old, these agencies have financed nearly 300,000 single family homes and almost 500,000 multifamily rental units.

In its feasiblity report on Housing Assistance Block Grants, HUD indentifies State HFAs as the major source of housing development and management expertise on the State level:

> "Through SHFAs, States have developed considerable capacity to plan, develop, and finance housing with staffs of trained specialists with skills in marketing, appraisal, architecture, management and related specialties. Partnerships have been established with both the private sector (through loan origination and servicing, mortgage purchase and loans to lenders) and the Federal government (through the use of subsidies and FHA and FmHA insured mortgages)".*

Experience with Federal housing assistance, extensive experience in housing development and management and established relationships with the private sector and local communities, make state housing finance agencies the logical candidates to administer Housing Assistance Block Grant programs.

State agencies are unique, inasmuch as they are neither a purely public agency nor part of the private sector. They are, rather, a link between the two, drawing upon the resources of the private mortgage lending industry and private developers while serving to help those families who cannot be served by private industry without some form of governmental assistance. Mindful of the public purpose of tax-exempt borrowing, most state statutes limit multifamily borrowers to public, non-profit, and limited dividend entities. These statutes also target low income areas or limit the income levels of single family borrowers and occupants of multifamily developments to people with low and moderate incomes.

* Office of Policy Development and Research, Housing Assistance Block Grant Report (Draft). U.S. Department of Housing and Urban Development, Washington, D.C, April 1981 (Chapter VIII, Page 16).

Not only are HFAs disciplined by the risk inherent in the housing development industry, most HFAs also answer to boards composed of responsible private and public officials, to private industry participants and concerned public interest groups, to state legislatures and governors, to public pressure, to the press, and to the bond market in which they raise money. Through state finance agencies, tax exempt financing has become an important and efficient tool for stimulating low income housing production. This stimulus would continue under housing block grants and should be considered an integral part of the program's design.

New legislation will define the relationship of state agencies to HUD and to other state and local entities. To attain maximum program feasibility in the presence of many diverse and competing interests, state agencies must build upon past achievements in order to resolve the crucial issues of the future. A proposed position on these issues, with accompanying explanations of the reasoning and constraints, is given below.

Program Format

Concept: The Folding In of Existing Programs

All categorical housing programs, except funds in support of existing public housing and FHA-insured projects, should be folded into block grants for assistance to low and moderate-income home owners and renters. There should be a housing stock component that supports programs for housing maintenance and new construction, and income supplements for people who cannot afford adequate dwelling space. The housing stock component would be devoted to housing production needs.

CSHA Analysis and Position

Support for future federally-subsidized housing activities must be consolidated to provide needed flexibility and maximum program results, especially in the context of diminishing federal resources. Programs that should be terminated include public housing, Section 8 (including new construction, substantial and moderate rehabilitation and existing), Sections 312,202,235, Tandem subsidies, Farmers Home Administration programs and Sections 502, 504, and 515. Any recaptured budget authorities from project terminations should be folded into annual housing block grants for the areas where the recaptured funds originated. Operating and modernization subsidies for public housing projects and flexible subsidies for troubled projects should continue from separate federal funding sources.

Incorporating Farmers Home Administration programs is particularly important in states with small populations. With 80% of HUD's assisted housing funds directed to metropolitan areas, the amount of funds remaining for non-entitlement areas would not be adequate to carry out a range of housing activities in many states. The retention of Farmers Home Administration categorical programs would defeat the purposes of a housing block grant and merely shift current HUD/FmHA geographic and program duplication problems to states and local governments.

Concept: Fair Share Allocation by HUD

The entire pool of housing assistance funds should be apportioned among states by HUD, using a fair share formula that reflects nation-wide data on rural, urban and metropolitan area housing needs for new construction, housing preservation and housing vouchers. The formula should be adjusted by regio to compensate for

regional differences in shelter costs, particularly rent levels, construction and utility costs. Funds alloted to individual states would then be divided by HUD between entitlement and non-entitlement areas.

CSHA's Analysis and Position

Reasonable measures of housing need by states and the comparative needs among states can be calculated and updated most efficiently at the national level. U.S. Census and Annual Housing Survey data provide the necessary information for making equitable distributions to states and to entitlement and non-entitlement areas within states. These data sources eliminate the need to involve cumbersome and time consuming local participation in processing allocations. Regional cost differences should be factored into the distribution formula because the cost of producing housing and operating housing services varies substantially from one region to another.

Concept: Entitlement Areas

HUD would establish at least two funding categories for most states, one for entitlement cities and another for the rest of the state. Where a state has no entitlement cities, HUD would turn over the entire block of funds to states for statewide distribution by states. Designated entitlement cities should receive their allocations directly, and administer the funds according to local determinations of housing need. In states where there are no entitlement cities and in areas of states outside of entitlement cities, states should administer the allotted funds. Urban counties and regions should not be considered entitlement areas.

CSHA's Analysis and Position

States, rather than regional agencies, should administer block grants in metropolitan and rural areas outside of entitlement cities. The larger jurisdiction will permit the concentration of funds in areas with the greatest need, and accommodating natural housing market boundaries rather than the artificial boundaries created by local governments.

Concept: A State Finance Agency Allocation

A third allocation category would be established in states that have created a state housing finance agency and wish to initiate innovative financing and specialized construction programs. These programs would operate throughout the state in entitlement and non-entitlement areas.

CSHA's Analysis and Position

The set aside for state housing finance agency programs will give states the flexibility they need for creating effective financing techniques to remedy localized single family and multifamily housing problems that have been identified throughout the state. It will maintain a strong institutional housing structure at the state level to help local governments reach their objectives when solutions to local problems strain local capacities. It will finance construction for special housing needs and purposes.

Concept: The Allocation Process

HUD's assignment of funds within states to the three potential block grant categories should depend on a state's interest in undertaking specialized housing activity through

a state finance agency, the amount of funding it receives, and identified housing needs. Funding levels for entitlement and non-entitlement areas will reflect relative housing needs throughout the state as determined by HUD through a fair share formula.

CSHA's Analysis and Position

An amount of funds would be subtracted at the out set from the states' allocation and set aside from the total pool of block grant funds allocated to a state if that state has an established housing finance agency. Housing Assistance Block Grants must include a housing production component to be administered by states. Funding equal to 30% of the total pool of block grant funds allocated to a state and administered by HFA's would be reserved for statewide housing rehabilitation, new construction activities and special projects throughout the state. Remaining funds would be allocated to entitlement cities and non-entitlement areas. Cities large enough to meet their housing needs with available funds would receive direct allocations, based on an individual city's portion of the state-wide housing need. The share of funds for smaller cities (those that lack sufficient resources for implementing a balanced housing program) and for the remainder of the state, would be administered by the state on behalf of the localities whose needs are being addressed. The state wide agency responsible for the administration of this portion of the funds may or may not be the housing finance agency.

Entitlement city activities undertaken by entitlement cities should include but need not be limited to housing stock maintenance and any new construction projects identified by local studies of need. With its share of the funds entitlement cities would carry out such projects and may be assisted in meeting these needs by HFA's utilizing either the funds specifically set aside at the out set for HFAs for these purposes or by utilizing all or some portion of the funds set aside for entitlement cities. Use of such funds would be preceded by a cooperative analysis and mutual agreement of those projects to be undertaken between the entitlement city and the HFA.

As funding levels decline, however, the number of entitlement cities will also decline because reduced subsidies will make it impossible for cities with small allocations to engage in needed housing conservation and new construction activities.

Concept: Local Housing Assistance Plans

Funds directed to entitlement cities should be disbursed by those cities according to locally-determined housing plans. These plans should reflect goals for maintaining housing stock, new construction, and the distribution of housing vouchers. State housing finance agencies would provide financing and technical assistance to cities that request state aid.

CSHA's Analysis and Position

Cities with the capacity to address their housing needs should direct their own programs, with assistance from states when needed. If a city's housing resources cannot implement a balanced housing strategy, however, its entitlement designations would be withdrawn and its status and funds should be folded into state activities for non-entitlement areas.

Concept: State Allocation Planning

Programs in non-entitlement areas should be administered by states in consultation with representatives from local and regional governments. Criteria for ranking proposals and reviewing funded activities will be established to assure compliance with local and regional housing plans.

CSHA's Analysis and Position

Block grant principals in support of local control call for local involvement in the decision-making process. The scarcity of funds, however, will prevent attention to all housing needs identified by non entitlement communities. States should have the flexibility to choose their programs within the limits marked by local affirmations of need, and guided by objective ranking criteria.

Concept: Funding Term

Contract authority should be given on a long-term and short-term basis. Some of the annual contract authority should carry with it a long-term commitment to insure the viability of financing certain types of projects. Assurance should be given that block grant funds will continue to be authorized at least for three-year funding periods.

CSHA's Analysis and Position

Some projects will require a commitment of long-term budget authority, while others can be completed in a shorter period. A three-year commitment to block grants would allow states and cities to develop effective and efficient programs.

Housing Assistance Block Grants should be introduced gradually, easing the transition from established programs to new initiatives. Demonstrations that test program ideas and financial efficiency should begin in some states during this fiscal year.

Policy Guidelines

Federal restrictions should be limited to essential implementation items if block grants are to accomplish their fundamental purpose of providing program flexibility through reduced regulations. Assuring attention to low income families and mortgage insurance for high risk areas are two important policy objectives that Congress should reaffirm. The regulations for implementing these policy objectives, however, should be revised.

Income eligibility standards should be revised because of the need to encourage program innovation. Opportunities seldom grow under rigid conditions. Congress can still accomplish its goal of targeting low-income families while reducing the percentage of funds that must be directed to them. A minimum of one third of the total block grant funds should be reserved for people with incomes below fifty percent of an area's median income level. The remaining two thirds should support housing objectives, such as urban revitalization and economic integration, that may benefit a wider range of income groups.

Private mortgage insurance will not be readily available to many low income urban areas. These high risk areas, however, do not need full insurance coverage to achieve feasible project financing. Moreover, to promote efficient and responsible housing management, state and city bonding authorities should be expected to assume

some risk for projects they finance. Outside of high risk areas, co-insurance should be available when mortgage guarantees are needed. Co-insurance would free project developers from onerous FHA regulatory burdens and subject them instead to the healthy restraint of self interest. The benefits to HUD of this self-interest would continue for the life of the projects.

Current standards for affirmative action and equal opportunity, housing quality and environmental review remain valid and should continue in force.

HUD Role

HUD should have the following duties under housing assistance block grants:

*Make funding allocations to states and entitlement cities.

*Monitor housing programs in entitlement cities and states to assure that funding decisions reflect local needs.

*Review housing programs in states and entitlement cities for compliance with national policy directives.

*Review national program performance and disseminate to paticipants information about particularly successful and innovative program designs and financing techniques.

II. STATE HOUSING FINANCE AGENCY ADMINISTRATION OF A HOUSING ASSISTANCE BLOCK GRANT PROGRAM

State housing finance agencies (HFAs) have proven themselves capable of delivering a wide range of housing programs. Experience, administratiave ability and a solid record of achievement all point to a major role for HFAs in a housing block grant program. Tax-exempt financing (assuming its continued availability) could provide an important compliment to block grant funds.

Let us assume for the moment that Congress has enacted a housing block grant program and that state housing finance agencies have been given the responsibility for administering a significant portion of the funds. How will HFAs use the block grant dollars? What kinds of programs can we expect to see?

Before embarking on new programs, each state should be required to undertake a detailed analysis of housing needs. This follows logically from the argument for block grants that, unlike categorical grants, block grants allow for a mix of programs most responsive to state, regional and local conditions. This needs analysis will provide an opportunity to evaluate the state's housing stock, as well as the ability of its residents to afford adequate housing. It can help to establish a direction for new program development, demonstrating where new construction is needed, where rehabilitation makes sense, and to what extent housing needs can be met through the existing stock.

HFAs seem particularly well suited to undertake this kind of analysis, not only because of their familiarity with housing needs across the state, but also because housing markets typically transcend local boundaries. HFAs are close enough to understand local market conditions, and are capable of balancing local needs with regional and statewide housing goals.

The choice of programs under a housing block grant will be determined not only by needs but also by goals established in each state.

Local preferences will also influence the choice of programs. Historically, state housing finance agencies have demonstrated the capacity to work effectively with local governments to design programs which reflect local preferences. In some cases, the HFA and local units may cooperate on joint programs; for instance, community development block grant and housing block grant funds may be combined in one program. Local units may even administer their own programs using state block grant funds. HFAs would select among competing programs and monitor performance.

Given the flexibility, HFAs can be expected to respond to these needs, goals, and preferences with a wide range of programs. Housing assistance block grants (HABG) may go to support rental programs—both housing stock programs and income programs—as well as homeownership, home improvement, and special housing programs. A selection of program ideas follows. We note, however, that many of the ideas presented are already functional in many states as HFAs have always been independent of the federal government. Many state agencies have ongoing programs and could piggyback HABG funds. These programs could become that much more effective by gaining from the immediate leveraging provided by HABG funds.

RENTAL HOUSING PROGRAMS

Many state HFAs have experience in the administration of rental housing programs, not only in new construction and substantial rehabilitation, but some also in

existing housing. Several states are embarking on moderate rehabilitation programs. With a housing block grant, HFAs would be fully capable of administering a range of rental housing programs to meet state housing needs to maintain or supplement tax-exempt financing programs, to leverage other sources of revenue in support of rental housing, and, of course, to administer direct grant programs.

Adding to the Rental Stock: New Construction and Substantial Rehabilitation

Over the years state housing finance agencies have developed the capacity to leverage private capital with federal and state funds to finance needed multifamily housing for families, senior citizens and special populations. This housing has been met with broad public approval. Having to meet strict public disclosure requirements and auditing procedures, and with a substantial performance record behind them, state agencies have gained widespread acceptance by the entire investment community.

State agencies have most often been pioneers in delivering various multifamily programs to the citizens of their states not served by traditional market programs. Great capacity has been developed by state housing agencies in the difficult areas of underwriting procedures, developing construction costs and building design standards, using innovative financing techniques, supervising the construction process and overseeing the management of multifamily properties once they are occupied. The fact that these skills have been acquired over a considerable period of time means that state agencies represent a valuable national delivery resource that is indispensable to producing multifamily units.

The question of how multifamily production can best be achieved under a block grant program is one of extreme importance. Housing Assistance Block Grant funds could be utilized by HFAs as a flexible resource to produce needed multifamily housing. Let us now describe some specific approaches state agencies might take.

- Block Grants to Lower Borrowing Costs

  A HABG might be used to write down the front end costs of a loan to make projects feasible for low and moderate income renters. For example, block grant funds could be used to reduce costs associated with land acquisition. At a time of high interest rates, block grant funds could be used to write down interest costs on tax-exempt issues offered by HFAs which would reduce overall project costs and ensure the projects economic feasibility.

- Block Grants to Provide Rental Assistance

  HABG funds can be used to lower borrowing costs as described above; however, there will be a significant segment of the population who would not be helped in this manner. HABG funds could also be used by HFAs to provide rental assitance payments to the truly needy such as the elderly on fixed incomes or the developmentally disabled. Such assistance would require the appropriation of long-term budget authority to maintain these units for low income persons.

- o Block Grants to Provide Insurance

Some state agencies have historically used federal insurance to guarantee loans made to finance multifamily housing construction. However, HABG funds could be used by HFAs to create or leverage an insurance fund to support various types of loans for multifamily housing. This insurance fund could be used to reduce borrowing costs and would enhance the feasibility of many multifamily projects. Co-insurance, which could involve a state agency sharing a certain percentage of the risk of a loan, represents yet another potential use for HABG funds.

- o Block Grant Funds to Provide Seed Money

HABG funds could be used by HFAs to establish revolving loan funds or grants for nonprofit sponsors and/or minority development firms. HFAs could make funds available to reduce many of the essential preliminary costs associated with project development. Use of HABG funds in this case would reduce overall development costs, thereby making the completed project affordable to a wider number of persons, and would also enhance the ability of nonprofit/minority sponsors to secure needed working capital.

Preserving Rental Stock: Moderate Rehabilitation

Much of the nation's rental housing is basically sound, but in need of moderate repairs to make it more energy efficient and to prolong its useful life. Moderate repairs are also required in some cases to maintain or achieve code compliance. This housing ranges in size from single family detached dwellings, most prevalent in rural areas, to large highrise buildings, located primarily in urban and suburban communities. A significant portion of it is occupied by low and moderate income tenants. State HFAs have valuable experience in loan underwriting, housing rehabilitation, housing management and administration of rental assistance programs which makes them particularly well suited for the operation of moderate rehabilitation programs. Program benefits could be linked to the type or income of the tenants and could include the following options:

- o Block Grants to Lower Borrowing Costs

HABG funds could be used as no interest participation loans to reduce the size of the monthly principal and interest payments. Repayment could be amortized or deferred. HABG funds could also be used to lower the interest rate on the loan, either for the first few years or for the term of the loan.

- o Block Grants to Provide Rental Assistance

Even when borrowing costs are low, it may be difficult to make moderate rehabilitation work for low income tenants. HFAs could use block grant funds to provide rental assistance similar to the Section 8 program, and therefore guarantee a sufficient stream of income to pay the cost of improvements.

- o Block Grants to Increase the Availability of Insurance

Current FHA Title I regulations limit insurance to buildings which are owned by an individual as opposed to a partnership, corporation, etc. Other limits are set for the maximum total loan amount and the per unit amount (the FY '82 HUD authorization would raise these to $43,750 and $8,750 respectively). No other

feasible insurance program exists to fill the gaps. HABG funds could be used to provide insurance or to provide co-insurance in conjunction with a private mortgage insurer, perhaps as a cooperative effort among several state HFAs.

o Block Grants to Create Rental Units

HABG funds could be used to finance the creation of rental units within existing single family homes. The funds would be used to reduce interest rates, provide a deferred or participation loan to lower the monthly carrying costs or to subsidize the rents of tenants meeting prescribed eligibility criteria. Loans could be targeted to specific population groups, such as the elderly, to specific areas with a shortage of rental housing or to particular types of underutilized housing such as large, turn of the century, single family homes.

Expanding Access to Rental Housing: Vouchers

Extensive public debate is taking place on the relative merits of various income transfer programs designed to enable low income renters to occupy decent housing without spending a disproportionate share of their income on rent. Regardless of the approach that is eventually adopted, state HFAs can play a central role in the administration of such a program, thanks to their technical expertise, staff capabilities, statewide delivery systems and financial accountability.

HOMEOWNERSHIP PROGRAMS

Existing cooperative relationships with banks, savings and loans, and local housing authorities provide HFAs with efficient mechanisms to serve rural, suburban an urban needs. Home mortgage programs financed with tax-exempt bonds were initially designed for moderate and below moderate income homebuyers, but current high interest rates have placed these funds beyond their reach. HABG funds can be used to supplement current tax-exempt bond financing to reach more effectively lower income households and others with special needs (such as first time homebuyers, large families, minorities, and the handicapped). Leveraging could also occur with funds from other sources, such as private mortgage capital, taxable securities, pension funds and state appropriations. Programs could be designed so that funds revolve to serve a larger number of households. Examples of program options follow:

o Block Grants to Reduce Monthly Costs

HABG funds could be used for graduated payment mortgages, to lower monthly payments in the early years of the loan. No interest participation loans would also decrease monthly payments by reducing the size of the interest bearing mortgage loan.

Block grants could be used to write down the interest rate or reduce the size of the downpayment under a shared appreciation mortgage program. This approach holds considerable promise for attracting pension funds and insurance funds into housing production, not only for single family homes, but for condominiums and cooperatives as well. Through a private placement with a pension or insurance fund, state agencies could raise taxable proceeds which could be utilized to finance new housing. In exchange for sharing in the appreciation of the mortgages, the pension or insurance fund would accept a rate of interest well below the prevailing rate, which would translate into reduced borrowing costs for both state agency and homebuyer.

- Block Grants to Provide Downpayment Assistance

HABG funds could be used to provide downpayment assistance to first time homebuyers. Downpayment assistance could take the form of outright grants, deferred loans payable at time of sale with or without interest, second mortgage loans repayable in small monthly payments (e.g., $10 to $20 per month), etc.

- Block Grants to Encourage Turnover in the Existing Stock

HABG funds could be used in a two step program to encourage better utilization of the existing housing stock. High density, energy efficient new construction would be provided in existing neighborhoods for "empty nesters" who are "over housed". Their homes would, in turn, be sold to young families with children, expanding the housing mix in the community and better utilizing existing infrastructure and municipal services. Block grant funds could be used at several points in the process, including construction loans or home purchase assistance.

- Block Grants to Help Renters Become Homeowners

Lower income families are often precluded from purchasing a home because of the absence of a downpayment, limited monthly income, a poor credit rating or an indequate credit history. Local housing authorities could be selected to administer a program whereby potential homeowners could rent an existing unit for several years. During that time, they would build up sweat equity through maintenance and repair. Part of their rent could also be credited towards equity. Once they had established a good credit history and built up a reasonable downpayment they could purchase the home, perhaps at a value established upon initial occupancy. HABG funds could be used to cover part or all of the initial purchase price, to pay for carrying costs during the rental period or to provide a guaranteed source of affordable takeout financing.

- Block Grants to Help Indians Become Homeowners

Indians residing on reservations are often precluded from obtaining mortgage loans because of the inability to obtain individual, clear title to the land. HABG funds could be used for direct loans or for mortgage insurance in such cases.

HOME IMPROVEMENT PROGRAMS

Nationally, annual production of new units is a significantly small percentage as compared to existing housing stock. This means that almost all Americans live in existing housing, with a wide variety in age, condition and quality. This housing stock must be preserved and sometimes upgraded. Home improvement programs serve diverse needs including preservation of existing neighborhoods, energy conservation, code compliance, handicapped accessibility and room additions. HFA capacity to administer these programs include an experienced planning capacity, a statewide delivery system and an ability to leverage funds. Options for use of HABG funds include the following:

- Block Grants to Reduce Monthly Costs

HABG funds could be used to lower the interest rate on home improvement loans to make them affordable to lower income families. The interest rate could be the same for all borrowers or linked to variables such as income or family size.

Block grants might also allow for a long term, small payment program, to make home improvements affordable to owners who can manage only very small payments of approximately $10 or $20 a month. This kind of program would be especially beneficial for the elderly. HABG funds could be used to pay the administrative and servicing costs of these otherwise uneconomical loans.

o Block Grants to Defer the Cost of Home Improvement

Block grants could be used to provide low income homeowners with interest free or low interest loans which are repayable when the property is sold or transferred.

SPECIAL PROGRAMS

Congress has long recognized the need to create separate programs or set-asides to serve population groups with special housing needs. These include the elderly, the physicially and mentally handicapped, large families, single part families, migrant workers and people in need of temporary shelter. Many HFAs are already operating special programs, which could be expanded or reproduced in other states with the help of HABG funds.

o Block Grants to Support a Congregate Housing Program

Many elderly are forced to live in nursing homes even though they do not need round the clock medical care because they are unable to obtain the limited support services they need to keep them independent. HABG funds could be used in conjunction with other rental production or assistance programs to provide financing for additional construction costs (e.g., kitchen and dining room) and equipment (e.g., dishes, silverware, tables and chairs). HABG funds could also be used in conjunction with social service funds from other sources to fill the gaps in providing support services such as hot meals, housekeeping, personal care and transportation.

o Block Grants to Provide for Revenue Mortgages

Elderly homeowners often have limited monthly incomes, but significant equity in their homes; many own their homes free and clear. HABG funds could be used alone or in tandem with other funds to provide a variety of reverse mortgage instruments.

o Block Grants for Innovation

HABG funds could be used to stimulate innovative ideas in the areas of design, construction techniques, energy conservation, marketing and finance. These demonstrations could be carried out directly by the HFAs or by other entities such as local housing authorities, non-profit organizations and limited dividend developers. Assistance could take the form of grants, short term loans or interest reductions.

o Block Grants to Support Emergency Shelters

HABG funds could be used to provide temporary housing for people with urgent needs which are expected to be of short duration. Examples include battered women and children, migrants seeking permanent employment, recently

released prison inmates and people whose homes have become suddenly uninhabitable due to furnace blowouts, frozen pipes, fires, etc.

- o Block Grants to Support Group Homes

HABG funds could be used to provide direct loans, loan guarantees or interest reductions for group homes for people with special needs such as the handicapped, the mentally disabled, and people recovering from drug dependency.

SUMMARY

HFAs have historically demonstrated a capacity to provide housing of superior quality; housing which meets the diverse demands of a particular state. Housing developed and financed by HFAs have met rigorous market feasibility tests, and have been well managed and maintained. HFAs have been innovators in the housing field and have also demonstrated the capacity to work with and to efficiently implement federal housing programs, such as the Section 236 program and the Section 8 program.

As we have outlined above, HFAs have given a considerable amount of thought to what appears to be the shift away from catagorical programs designed specifically to meet certain demonstrated needs toward an all encompassing block grant approach. As we have seen, were HFAs given the responsibility for administering a significant portion of the HABG funds, alone or in cooperation with entitlement cities or nonentitlement jurisdictions, they would be able to serve the many and diverse needs of today's housing market. As has been demonstrated, state HFAs are in a particularly unique position relative to their experience, technical capacity and knowledge of the housing market, to administer HABG funds with an emphasis on efficiency and effectiveness.

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NATIONAL RURAL HOUSING COALITION

STATEMENT OF ROBERT A. RAPOZA, LEGISLATIVE DIRECTOR

Mr. Chairman, my name is Robert A. Rapoza and I am the Legislative Director of the National Rural Housing Coalition, a private, nonprofit organization which lobbies on rural housing and community development issues. On behalf of our membership I want to thank you for the opportunity to appear before you today.

The Administration Fiscal 83 Budget Request

We are here today to express our deep concern about the Administration's FY 83 budget request for the rural housing and community facilities programs of Farmers Home Administration (FmHA) and the assisted housing programs of the Department of Housing and Urban Development (HUD). The Administration has set out on a clear course: destruction of all housing and community programs for low and moderate income people. If the FY 83 budget request is approved, we believe that the next step will be to dismantle FmHA, and its important mission: providing credit to rural America.

Rural Housing Need

Mr. Chairman, as you know there is a continuing need in rural America for the assistance of the federal government in providing housing for low income people. Over 40% of the nation's worst housing is in rural areas. And over 800 rural counties have no savings and loan institution; without the direct lending assistance of FmHA there would be virtually no lending for housing or community facilities. About 5% of the occupied units in urban areas are substandard, while 8.5% of the occupied units in rural areas are substandard.

You can go on and on with the numbers, but the basic fact is distressingly simple, Almost 2.5 million housing units in rural areas are substandard; that means between 8 and 10 million people live in bad housing. They will not escape without federal help. Further, the reduction in FmHA and HUD programs will be the death knell to the rural home builder, to many rural towns and most important to people living in inadequate housing. This nation can afford to fund rural housing at an adequate level.

PROPOSED SENATE RURAL HOUSING BILL

The staff of the Senate Rural Housing Subcommittee has developed a proposal which would alter radically the delivery of current rural housing programs. The proposal has two main features: Farmers Home Administration would provide credit for housing at market rate, while current FmHA subsidies (interest credits and grant programs) would be repealed and a percentage of funds allocated to the states. Rural areas are defined as towns of up to 10,000 population outside of SMSA's, and low income as adjusted gross income of no more than 80% of the area median income. States would be required a 10% match from their own funds. Rehabilitation would be the preferred use of funds, but others (including new construction and rental assistance) would supposedly be permitted. The allocation formula being proposed appears to be one that would increase the share of assistance going to the South and decrease that going to the West and (to a less extent) that going to the North Central and Northeast regions.

Also, the committee staff estimates that the cost of the block grant will be $300-500 million -- an amount equal to outlays for the President's FY '83 budget. If the President's budget is rejected, or greatly modified, as seems likely, and FY '82 levels are put into place, the level of the block grant would not rise from the President's request to the FY '82 level (about $1 billion). The staff recommendation, regardless of action by the budget committee, is a major reduction, $500-700 million, in funds for low income rural housing.

Such drastic surgery on the rural housing assistance system that has been developed over the past three decades is neither necessary nor desirable. In place of specific reforms for specific problems, the staff proposal amounts to an abandonment of past experience for a reckless experiment -- the costs of which will fall on the ill-housed low-income families of rural America:

- Housing assistance for lower-income people is a national responsibility (as declared in 1949's landmark bipartisan legislation). To turn operation of a federally financed program over to the states is to repudiate that basic statement of national purpose. It is also to abandon the logical mechanism for accountability in a national program and to invite instead the balkanization of policies and of benefit patterns.
- The rural housing block grant program is untested and actually a demonstration proposal. The small cities block grant program is also a demonstration, now underway, with over half of the states participating. Its results should

- be evaluated before disbanding a proven FmHA program and replacing it with a concurrent experiment.
- A proclaimed purpose of the proposed new system is improved targeting of assistance. But there is no explanation of why a legislative mandate aimed at the present administering agency wouldn't be more effective than one aimed at fifty different and sovereign states. In fact, past experience with block grants demonstrates that targeting has been eroded rather than improved.
- It is widely recognized (as in a recent Congressional Research Service study), that annual housing subsidies such as those proposed will not be effective in securing new construction of assisted housing. Hence, the proposal's lip-service to new construction and rental assistance is not matched by any mechanism to serve that purpose.
- The Block Grant proposal splits rental subsidy from construction financing. Combining the two will demand cumbersome administrative requirements, added administrative costs, and difficulties for the consuming public, who are best served by a subsidy/financing package. It will mean an end to multi-family housing construction for the elderly and single family housing construction for low or moderate income families.
- FmHA is presently renewing Rental Asssistance contracts to protect its rental housing investment and help low-income elderly, families and farmworkers. If future subsidies are locked into state block grant programs, what will happen

when other Rental Assistance contracts expire?

- FmHA had Section 502 inventory on December 31, 1982, was 8,485 units. These units, as well as future inventory, cannot be successfully marketed without interest credit, which is eliminated under the proposal.
- FmHA will retain an unsubsidized credit program, which will produce housing beyond the affordability of its present clientele. As a result, the "lender of last resort" will instead become a competitor to private, middle-income mortgage sources.
- One apparent aspect of the staff proposal would be the abandonment of a significant but virtually costless subsidy mechanism: use of the federal government's efficiency in raising credit to reduce the costs of housing assistance. By forcing FmHA to lend at market rates when it can obtain credit at two-to-three percentage points less is to add an estimated $110 million to the cost of rural housing assistance.* Unless a compensating amount is included in the block grant funding, there must either be a reduction in the amount is included in the block grant funding, there must either be a reduction in the number of units assisted (projected to be nearly 22,000 less at current subsidy costs), or else the program would have to serve higher income families (the reverse of its supposed purpose).

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*The 2.68% difference between FmHA's cost of money (14.44%) and the conventional rate (17.25%) applied to the current FmHA loan levels (current service basis) equals $107.8 million.

- Similarly, while farmworker housing assistance is mentioned as a possible use of block grant funds, states with major farmworker housing needs would not receive any extra funds. The near certainty will be abandonment of what has previously been considered a special housing responsibility of the national government.
- The FmHA delivery system is in place and effective. It encompasses 1960 county, 300 district and 46 state offices. The ability of states to deliver housing in rural areas, particularly remote rural areas, is questionable. Their housing assistance, with a few exceptions, has gone primarily to urban and suburban areas. For example, in Maine FmHA has almost 30 counties that span the state providing services to rural people. Can the state afford to duplicate such a system, or should it given the existence of an established operating delivery system: FmHA. In short, we believe that the approach outlined by committee staff would serve to destroy a system and set of programs which have evolved over the last 40 years to serve rural people. Providing decent housing for rural low income people is not easy or cheap. However, the current program, while not without flaws, deserves to be maintained and strengthened, not scrapped.

NRHC FY 83 RECOMMENDATIONS

FmHA

Generally, NRHC recommends that FY 82 levels for FmHA housing programs be retained. Most FmHA housing programs have been funded at about the same levels since 1979. (See dollar levels in the attachment.) A Significant reduction in units has already occurred, as represented in the figures below:

	FY 79	FY 82	FY 83 ADMIN	FY 83 NRHC
Section 502	110,382	83,771	20,100	76,433
Section 515	38,650	30,178	5,740	29,185

Some FmHA programs will need special attention.

- NRHC recommends an increase in funding for Self Help Housing. The self Help Housing Technical Assistance Grant Program (Section 523) operated at $13.2 million level in FY 81, producing about 3000 units of housing for low and moderate income people. Almost 80 organizations received 2 year grants to conduct self help housing programs. These grants will terminate during FY 83. The FY 82 appropriation of $3.95 million plus any additional carryover funds will be insufficient to continue the same unit level of production or to meet demand for new programs and increased production.

More than 70 grantees, housing authorities and non profit organizations, across the nation are helping low and moderate income rural households save over $9,000 per house over a contractor built Section 502 house. In rural America, self-help housing is the low and moderate income person's only opportunity for home ownership. To continue the existing program and fund applications on hand, NRHC recommends an appropriation of $20 million.

NRHC recommends the FY 82 level for Rental Assistance Funds. In order to ensure that FmHA rental programs (Section 515 and Section 514/516) do serve the most in need, NRHC recommends the use of five year contracts, as proposed, and on the following basis:

- $225 million for contract renewals and new contracts in existing projects. (21,350 units)
- $175 million specifically for contracts in newly constructed projects. (16,610 units)
- Of the 16,611 units, 1,000 be designated for priority use in the 514/516 Farm Labor Housing program.
- That FmHA be prohibited from requiring a dual market for new projects that will utilize rental assistance.
- That the tenant contribution for rural rental housing be maintained at current levels.

- NRHC recommends $5 million for Section 525.
  - For almost 20 years, the Department of Labor has funded, through CETA, 30 non profit organizations and

public housing authorities operating in 20 states, to plan, package and construct FmHA and HUD financed housing for migrant and seasonal farmworkers. With the enactment of a new, reduced federal manpower program, it is unlikely that the resources will be available to continue this program. NRHC recommends that $5 million be authorized for Section 525 and that report language be added, setting aside 50% of these funds for farmworker housing technical assistance.

- NRHC recommends that FmHA staffing levels be increased to FY 81 levels.

  - FmHA staff was reduced by over 100 positions in FY 82 and is slated for further reductions in FY 83. The decrease when coupled with increased emphasis on delinquincies has resulted in less housing loan production. In many counties offices the housing programs have been shut down for months at a time while staff concentrate on delinquent borrowers. A better way to handle this situation would be to fund section 525, as recommended earlier for supervisory assistance, and allow FmHA staff to return to providing housing for people in need.

ATTACHMENT (1)

	FY 79	FY 82	ADMIN FY 83	NRHC RECOMMENDATIONS
Sec. 502 Homeownership Loans	$2,878,145	$2,730,000	$900,000	$2,700,000
Sec. 504 Low-Income Repair Loans	14,710	24,000	24,000	24,000
Sec. 504 Repair Grants	19,000	15,000	12,500	24,000
Sec. 514/516 Farm Labor Housing Loans and Grants	68,757	39,350	31,500	50,000
Sec. 515 Rural Rental Housing Loans	869,509	940,000	200,000	940,000
Sec 523 Self-Help Housing Grants	5,629	3,950	0	20,000
Sec. 523/524 Rural Housing Site Loans	4,682	5,000	2,000	7,000
Sec. 525 TSA Grants (inc. counseling)	2,500	0	0	5,000
TOTAL	$3,862,932	$3,757,300	$1,170,000	$3,770,000
Rental Assistance	422,955	398,000	185,000	400,000(a)

UNITS

	1972 ACTUAL	1982 ESTIMATE	1983 ESTIMATE	NRHC RECOMMENDATIONS
Homeownership Loans	110,759	83,771	20,100	76,433
Home Repair Loans & Grants	12,493	11,751	9,415	12,830
Farm Labor Housing	2,575	1,632	821	1,303
Rental Housing	38,477	30,178	5,740	29,185
TOTAL	164,477	127,332	36,076	119,751

(a) assumes 5 year contract for all units

STATEMENT OF

THE NATIONAL ASSOCIATION OF HOME BUILDERS

before the

COMMITTEE ON APPROPRIATIONS

SUBCOMMITTEE ON AGRICULTURE, RURAL DEVELOPMENT AND RELATED AGENCIES

UNITED STATES SENATE

on

FARMERS HOME ADMINISTRATION HOUSING PROGRAMS

APRIL 20, 1982

Mr. Chairman and Members of the Subcommittee:

My name is Fred Napolitano, and I am a homebuilder from Virginia Beach, VA. I am submitting this statement on behalf of the more than 115,000 members of the National Association of Home Builders (NAHB). NAHB is a trade association of the nation's homebuilding industry, of which I am President.

Before I comment on the specifics of the Administration's proposal, I would like to outline for the Subcommittee the state of the housing industry today.

HOUSING PRODUCTION

- New housing production in 1981 totalled 1.1 million units as against an annual need for new homes that has been estimated conservatively at 1.8 million units throughout the 1980s. Last year was the worst housing production year since 1946.

- 1982 could finish as the worst post-war production year yet. NAHB's optimistic forecast for this year holds annual production to about one million. Housing starts in March fell to a seasonally adjusted annual rate of 953,000, down 26 percent from a year earlier, and down more than 52 percent from the 2 million annual production levels in 1977 and 1978 March was the eighth consecutive month that housing starts were below the one million annual level.

- March is the 39th month of recession in housing. The previous record was set during the Eisenhower Administration when the housing recession lasted 27 months.

NEW HOME SALES

- 1981 was the worst year for new home sales since the Census Bureau began collecting statistics in 1963. Only 437,000 new homes were sold, compared to 545,000 homes in 1980 and more than 800,000 in 1977 and 1978.

- Since March 1981, annual new home sales rates have been under the 500,000 level. In February of this year, the annual sales rate of new homes was 336,000. This was only slightly above the record low monthly rate of 335,000 in September.

- Actual sales in February nationwide were 21,000 new homes -- roughly the monthly number of new homes that were sold in the West alone during 1978 and 1979. In all of the Western states, only 7,000 new homes were actually sold in February. Only 6,000 new homes were sold in the Northeast and North Central states combined.

INTEREST RATES

- Conventional mortgage interest rates now average 17 percent. Mortgage rates at such high levels price the vast majority of potential buyers out of the market.

- Interest rates normally fall rapidly and decisively during recession, but in this downturn they have declined slowly and have remained in an historically high range. Analysts forecast that mortgage rates are not likely to drop below 15 percent this year, thereby killing off any chances for a housing recovery in 1982. The consensus is that home sales will remain at depression levels until mortgage rates drop to the 12 percent range, which by historical standards still represents an extraordinarily high cost of home financing.

- By reducing interest rates from 16 percent to 12 percent, 4.6 million additional families could qualify for a $65,000 mortgage. At 12 percent interest rates, more than 22 percent of the nation's families have the $35,000 income needed to qualify for a modest $65,000 mortgage. At 16 percent rates, fewer than 14 percent have the $44,000 income needed to qualify for the same mortgage amount.

UNEMPLOYMENT

- Unemployment in the construction trades in March was 18.1 percent or 928,000 unemployed workers, accounting for 10 pecent of the total unemployed work force. Another 200,000 skilled craftmen could lose their jobs over the next several months.

- An estimated 200,000 self-employed people in construction-related businesses have either shut down or sharply curtailed their operations in the housing industry. Self-employed people are not counted in the Labor Department's unemployment statistics.

- Bankruptcies are up 51 percent for construction firms and 65 percent for subcontractors.

- Rising joblessness toward levels not experienced since the 1930s continues to feed the federal deficit. The Congressional Budget Office estimates that every 1 percent increase in unemployment costs the Treasury $25 billion -- $19 billion in lost revenue and $6 billion in new expenditures to pay for unemployment programs.

Mr. Chairman, these statistics show with no uncertainty the critically depressed state of our industry. Unless and until mortgage interest rates are reduced to affordable levels, our industry will not show any signs of recovery. I am sure this Subcommittee is aware that in the past seven recessionary periods it has been the housing industry that has led the overall economy out of recession.

Mr. Chairman, over 200 rural builders came to Washington last month representing many other builders who could not afford the trip. Their message was simple and direct -- the Farmers Home housing programs represent the only source of mortgage credit in over half of the counties in rural America. FmHA is the only effective delivery system of mortgage credit for many rural areas. The Administration's proposed FY'83 budget for these programs brings them one step closer to elimination. It seems clear that FY'84 would see the end of the Section 502 and 515 programs, with no alternative method of financing

being proposed. Proposals to convert the construction programs of FmHA into a housing block grant administered by the state disregard the workability of these programs and the generally effective delivery system in place through FmHA offices. As shown in the following chart, the proposed cuts by the Administration would decimate these essential programs.

	FY'82	FY'83 Proposed	% Cut
Section 502 Single-Family Low Income	$2.3 billion 67,500 units	$900 million 20,000 units	61%
Section 502 Moderate	$429 million 11,700 units	- 0 -	100%
Section 515 Rental	$940 million 29,400 units	$200 million 5,740 unis	79%
Rural Rental Assistance	$398 million 30,740 units	$185 million 6,830 units	54%
Total New Units	108,600	25,840	67%

Mr. Chairman, we strongly support a level of funding for rural programs that would essentially maintain the FY'82 funding levels. In addition, we support a sufficient level of rental assistance funds to make Section 515 production feasible.

Mr. Chairman, we are deeply troubled by any proposal to shift FmHA interest credit subsidies to block grants for states. We are concerned that the level of assistance being considered would be insufficient to reach a threshold of workability. States will be under political pressures to fund housing in certain rural areas. Small increments of each block grant will be channelled to areas with insufficient expertise to effectively develop or rehabilitate housing. We urge you to reject the dismantling of a rural housing and credit delivery system capable of producing more than the 100,000 housing units delivered in FY'82.

CONCLUSION

Mr. Chairman, we in the housing industry are truly at the mercy of Congress and the Administration at this critical time. The FmHA housing programs comprise the only effective mortgage delivery system in rural America. I urge this Committee to continue its bi-partisan commitment to a responsible level of funding for the essential rural housing programs.

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